

A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

Keeping up with the market: The birth of a new digital
segment

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Abstract

The Walt Disney Company is a multinational diversified company that operates in 5 different segments: Media Network, Parks and Resorts, Studio Entertainment, Consumer products and interactive media and Direct-to-consumer and International. Since this firm entered in the latter business unit during the fiscal year of 2019 there is still some uncertainty concerning the future of Disney's stock price.

This thesis presents an application of two different valuation methods, Discounted Cash Flow and Multiple analysis, to infer this company's price by the end of 2020. Since Disney is a complex company with different core assets for both methods it was necessary to segregate by segment having in mind different value drivers and future expectations. This project aims to present projected financial results that support our final recommendation.

Keywords (up to four)

Value Drivers, Discounted Cash Flow, Comparable-firms, CAPEX investments

DISNEY Co.

ENTERTAINMENT

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COMPANY REPORT

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Keeping up with the market

The birth of a new digital segment

- In Fiscal Year 2019 Disney completed the \$71.3 billion acquisition of certain businesses of 21stCentury Fox. The estimated 3-year cost saving for this merger is \$2.5 billion.
- The main impact of this acquisition was a 43% increase on domestic subscribers from 21CF's cable channels, 81.25% growth in film production capacity for the Studio. Direct-To-Consumer segment benefited from the full control of 2 streaming platforms: Hulu and Hotstar.
- Disney entered in DTC segment with 4 streaming services and it is estimated that this segment's market share will reach 11% by 2026. The global size of this market is \$36.64 billion in 2018 with a nominal CAGR of 12.14% until 2026. This is a highly competitive market where Netflix has 30% of global subscribers.
- Despite the 21CF acquisition impact in Disney's film releasing capacity, the Box to Office performance is expected to decrease by 58% due to historical lower outcomes from Fox's movies.
- Disney's CAPEX investment for the Parks & Resorts segment is expected to totalize \$24 billion between 2020 and 2026, which is translated to an increase of 28% in this segment's PPE.
- The Media segment faced a decrease of 4% in domestic cable subscribers due to cord-cutting. To tackle this, Disney will increase its operating costs by 24.33% driven by the creation of original content.

Company's description

Disney is a US global entertainment company that is expected to be worth \$292,612 million by 2020, resulting in a 12% total shareholders' expected return and an EPS of 6.62.

Recommendation: **BUY**

Vs Previous Recommendation **HOLD**

Price Target FY20: **\$162.23**

Upside/Downside **+12%**

Price (as of 5-Jan-20) **\$146.88**

Bloomberg: DIS US Equity

52-week range (\$) 106.01-150.68

Market Cap (\$ in million) 292,345

Outstanding Shares (in million) 1,802

Source: Nova SBE Equity Research



Source: Bloomberg

(Values in € millions)	2019	2020E	2021F
Revenues	71,528	78,801	80,424
EBITDA	14,698	18,559	18,889
Net Profit	10,913	11,951	12,192
EPS	6.06	6.62	6.77
P/E	21.52	24.82	

Source: Nova SBE Equity Research

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY [INSERT STUDENT'S NAME], A MASTER IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL.
(PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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Company overview

The Walt Disney Company is a worldwide entertainment firm that operates with a team of 223,000 employees, with offices in 46 different countries and with operations in five different segments: Media Network, Parks and Resorts, Studio Entertainment, Consumer Products & Interactive Media and Direct to Consumer international. The company has operations worldwide, with a strong position in the U.S and Canada, representing 73% of its total revenues, followed by Europe with 12%, Asia with 11%, Latin America and others representing 4% of the total revenues (figure 1). This largest share of revenues from the U.S. and Canada has remained stable over time, due to high domestic revenues of the Parks and Resorts, together with a stronger investment in U.S. local television channels and a focus on the consumer and interactive products segment.

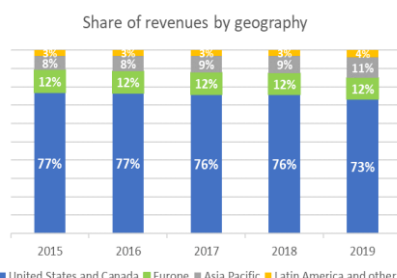


Figure 1-Source: Disney's Annual Report

During the Fiscal Year of 2019, Disney created a new segment that includes streaming services and International Cable Channels. With this new business unit, the company changed its revenues recognition, where the sales generated by those channels and digital platforms, stopped being recorded in the Media segment and started being recorded in the DTC&International. Consequently, the Media Network segment presented a lower percentage of total generated revenues (from an average of 43% between 2014 and 2018, to 35% in 2019) while DTC and international segment generated 13% in 2019. Additionally, Parks and Resorts segment was responsible for 30%, Studio Entertainment for 16% and Consumer Products and Interactive media for 6% of the total revenues (fig.2). The new DTC segment includes four streaming services Hulu, Hotstar, ESPN+, and Disney+. In the fiscal year of 2019, the company had more than 40 million paid subscribers from the 3 digital platforms: Hulu, ESPN+, and Hotstar. By contrast, the major players in this segment are Netflix, with 158 million subscribers, and Amazon Prime Video with 97 million. To differentiate from its competitors, Disney's goal during FY2020 is to succeed with the introduction of the new streaming platform, Disney+, and to invest 6\$ billion in original content. This new segment net income is only expected to reach a breakeven point in 2024, presenting a negative EBIT margin of -19% in 2019. The level of EBIT margin for the remaining segments in 2019 was 30% for Media, 23% for Parks and Resorts, 24% for the Studio and 38% for consumer products & IM (Figure 3). Looking on a strategic perspective, Disney's vision statement specifies leadership for the Entertainment industry and focus on creating long-term returns for its shareholders (fig.4), through tactical acquisitions: in 2006, with the purchase of Pixar Animation Studios (\$7.4Billion acquisition), and in 2009 when the acquisition of Marvel Entertainment (\$4.24Billion) was completed. In 2012, Disney spent \$4.05 Billion to acquire Lucasfilm and since then, the four Start

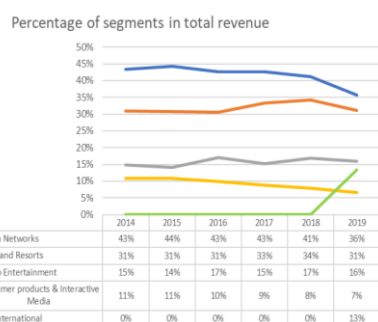


Figure 2-Source: Disney's Annual Report

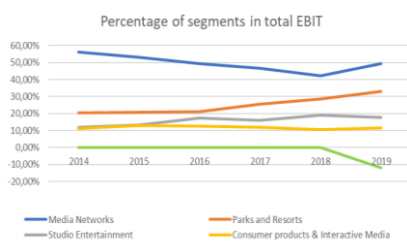


Figure 3-Source: Disney's Annual Report

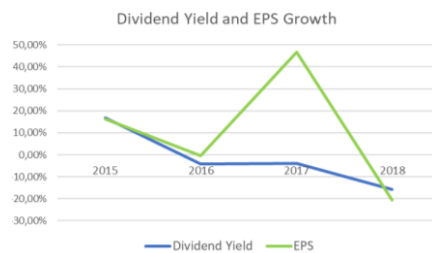


Figure 4-Source: Disney’s Annual Report

Wars Movies generated over \$4.8Billion at the box office, plus revenues from licensing agreements, merchandising, toys, home entertainment formats, and new park environments. The company continues to follow Robert Iger strategic mindset and entrenched its position with the acquisition of the 21CF in March 2019. This deal had a significant impact on Disney’s performance, especially due to the 21CF Film and Television Studios, Fox’s international television business, and multiple cable networks. The acquisition totalized \$69.5 billion, where \$35.7 billion were paid in cash and \$33.8 billion in shares (307 million shares at \$110.00 per share). The first-year results from this acquisition were not very positive for shareholders since they saw a reduction on the dividend yield (from 1.48% to 1.24%) and in earnings per share (from \$8.40 in 2018 to \$6.68 in 2019) both the biggest reductions over the past years. For this acquisition, Disney issued \$37.5 Billion in debt which led to an indebtedness increase, reducing its flexibility to respond to business and economic condition changes. Moreover, the aforementioned level of debt reduced the available funds for capital expenditures, dividends, and other activities, even resulting in a higher probability of default from the changes in the net debt to EBITDA ratio (an increase of 195.36% in 2019, fig.4). For these reasons, Disney is now focused on recovering its debt ratios and has announced that it will not repurchase shares until the levels are re-established. With the acquisition of 21CF, Disney also obtained 30% interest on Hulu (previously owned by the former), making it the majority shareholder of this streaming service, with a 67% interest. Subsequently, Disney assumed full control of the Hulu operation with a future agreement, with Comcast and NBCUniversal, to acquire the remaining Hulu’s interest by 2024.

Media network

Market overview

Cable and Broadcasting segment:

The media network revenue is generated by charging affiliate fees, selling commercial-time and programming/distribution services which, by comparison with the growth of streaming services, faces some competitive challenges. It is now possible to get nearly every cable’s channel content for a lower price which implies a cord-cutting on cable subscriptions. The mentioned trend affects the ability to generate revenues, especially from affiliate fees, and it is expected to continue at a CAGR¹ of 12.36% until 2023² (fig.5). Consequently, companies are charging higher contractual rates and investing high amounts on content to offset this trend. On the Broadcasting segment, the revenues generated by “affiliate fees” correspond to the rates charged to television stations affiliated with a

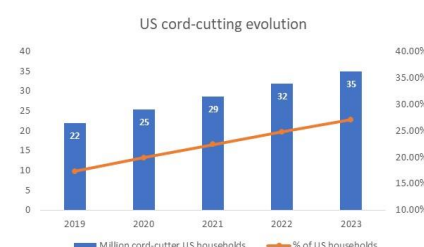


Figure 5- Source: EMarketer

¹ Compounded annual growth rate

² EMarketer US cord-cutting forecast

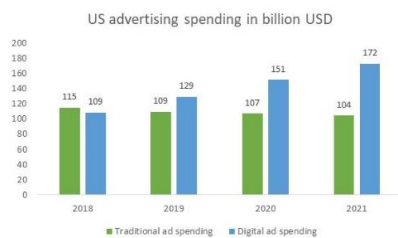


Figure 6-Source: EMarketer



Figure 7-Source: Statista

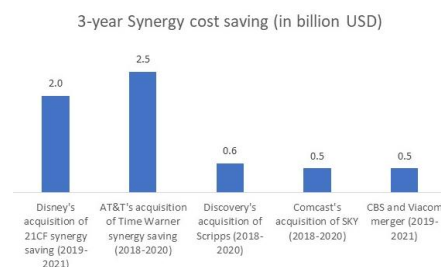


Figure 8- Source: Companies' Reports

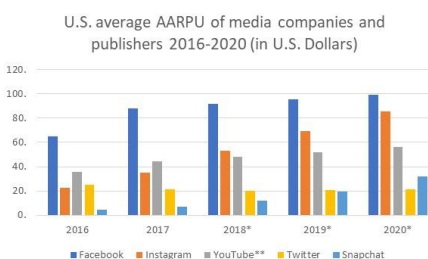


Figure 9-Source: Statista

broadcast network for the right to deliver its programs. This segment is expected to increase at a nominal CAGR of 6.76%³ (real CAGR of 4,53%) until 2024. There are some obstacles to tackle on the advertising sales side since the U.S. TV market growth is slowing down due to the rise of ad-free platforms, which are taking viewership on traditional TV, thus, decreasing the penetration rate of commercials. Additionally, there is a lot of offers that imply a lower cost for advertisers, especially with digital advertising, which is expected to increase at a nominal CAGR of 15.42% (a 14,19% real annual growth rate) until 2021⁴ (fig.6). It is foreseeable that advertising sales on this market will benefit from a slower compounded real annual growth rate of 0.3% until 2023⁵ since media companies are reducing the number of advertising-minutes sold but charging higher commercials rates. The television production and distribution segment depends on the licensing fees and other revenues from the right to use television programs and productions and from content transactions with other company segments. The domestic licensing of rights to television programs has been presenting a nominal CAGR of 3.3% (real CAGR 0.7%) from 2014 until 2018 and it is estimated that the charged retrans fees will increase at a similar rate for the next years (fig.7).

Market competition:

The ability to survive in this market depends on the quality and quantity of original content produced by the players. In this line of thought, media companies are merging and acquiring players that enable them to leverage their competitive advantages on the supply of content. The main competitors for this Disney's segment are AT&T company, Discovery Inc, Comcast, ViacomCBS, Netflix, Apple, Amazon, Facebook, and YouTube. It is relevant to mention that some of these big market players were involved in M&A deals during the last three years, namely: the \$14.6 billion acquisition of Scripps Networks by Discovery Communications, the AT&T's \$85 billion acquisition of Time Warner Company, the \$39 billion acquisition of Sky by Comcast in 2018, and the 2019 Disney's \$70 billion acquisition of 21Century Fox and the merger between CBS and Viacom. These M&A deals allow companies to take advantage of synergies (fig.8) that lead to an increase in competition from the current market players and an increase of the barriers to entry on new companies that want to integrate this market. Companies like Netflix, Amazon, Apple, ViacomCBS, and AT&T are investing in content and can offer almost every cable's channel programs, together with a wide library at an affordable price, leading to an increase in the market competition and on cord-cutting. Additionally, Disney's competition is represented by other big players like Facebook (including its acquired social

³ <https://www.spglobal.com/marketintelligence/en/news-insights/research/retrans-projections-update-sub-rates-continue-to-rise>

⁴ EMarketer US advertising spending

⁵ PWC Media outlook report

media platforms: Instagram), Twitter, Snapchat and YouTube that have been increasing its AARPU⁶ (fig.9).

Disney's Media Network Segment:

On FY2019, Media Network generated 35% of Disney's total revenues and its EBIT margin⁷ was 30%. Additionally, it presented a nominal CAGR growth rate for revenues of 1.64% for the last 5 years and a ROIC of 18% in 2019, higher than the WACC 6.9%⁸, meaning that it created value during this year. In figure 10 it is presented estimations for the ROIC until 2026 versus the weighted average cost of capital 6.79%⁹ estimated for that period. The ROIC from 2019 was significantly lower than in the previous years due to the consolidation of some businesses of 21CF especially driven by an increase in the goodwill and intangible assets (namely MVPD¹⁰ agreements and Character/franchise intangibles, copyrights and trademarks) (fig.11). It is estimated that the ROIC for the remaining years will be higher than the return on invested capital for 2019 due to a higher nominal CAGR of 4.63% (a real CAGR of 2.38%) on the core result of media network, for the period between 2019 and 2026, than in the total invested capital on this segment (0.37%). The expected ROIC for the perpetuity on this Disney's segment is around 13% and it will have the highest invested capital weight¹¹ representing 36% of the total invested capital in core in 2019 and 31% in 2026 due to a large portion of invested capital, allocated on the DTC&International segment. A significant part of the media networks invested capital is the TV costs and advances and, to estimate those, it was used the average cost per film released, completed and in-process/in development from 2019 together with the expected number of films released, completed and in-process/in development by year until 2026. One can assume FY2019 as a benchmark for the cost per film, which was the year with the higher marginal costs, reaching \$75 million per release, \$11 million per film completed and \$17 per film in-process, since it is expected that this type of investment will keep stable due to the improvement of content's quality. This value is estimated to continue growing at the expected US inflation rate (2.24%) whereas, the operating expenses and selling, general and administrative costs on this segment were forecasted as a percentage of revenues equal to the 2019 level. The estimated operating expenses for this segment were \$19 billion by 2026 (fig.12) (which represents 62% of revenues generated). These expenses include programming and production costs, participation and residual costs, technical support, operating labour and distribution costs. Regarding selling, general and

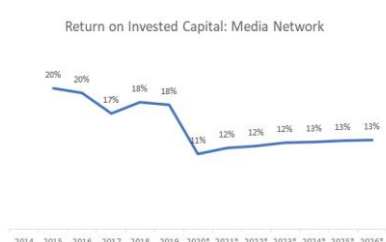


Figure 10-Source: Nova SBE Equity Research

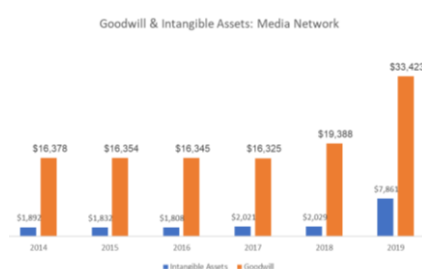


Figure 11-Source: Disney's Annual Report

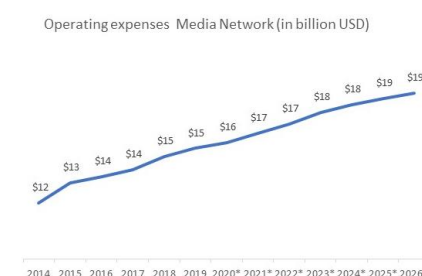


Figure 12-Source: Nova SBE equity Research and Annual Report

⁶ Average advertising revenue per user

⁷ EBIT/revenues

⁸ From Bloomberg at 17/11/2019

⁹ From Nova SBE Equity Research

¹⁰ Multichannel Video Programming Distributor

¹¹ (Invested capital in media/ total Invested Capital in core)

administrative costs will be around \$3 billion at the end of 2026 (10% of Media’s revenues).

Cable Networks:

Disney’s primary cable networks are ESPN, Disney, and Freeform. Additionally, the company acquired certain cable networks of 21CF namely National Geographic and FX networks. The revenues from Cable networks totaled 66% of the entire revenues from the Media Network segment in 2019. This segment was segregated by revenues from affiliate fees, ad sales, and TV/SVOD programming and distribution. On the first sub-segment, the ability to generate revenue is directly linked to affiliate fees charged and to the number of subscribers by channel. Due to cord-cutting, it is possible to notice a constant decrease in the number of US subscriptions where, from 2014 until 2019, ESPN domestic had a total decrease of 19%, Disney of 12% and Freeform of 10% (fig.13). By contrast, the number of subscribers on international channels has been increasing along with the affiliate fees charged on domestic and international channels, allowing this sector to benefit from a positive growth rate.

In FY2019, the company changed its segment structure and the international channels were recorded on the new segment *DTC&International*. Despite the change in the recording system, revenues from affiliate fees increased in 2019 due to higher contractual rates charged and new channels acquired from 21CF (fig.14). For forecasting purposes, this document proceeds with the estimation of subscribers using the historical average-variation for each cable channel’s penetration rate in the US TV-households. In 2019 the US penetration rate was 86.2% for ESPN, 89.3% for Disney Channel, 70.6% for Freeform, 89% for National Geographic and 90% for FX and it is expected that these percentages will decrease at a CAGR of -2% for ESPN and -1% for the remaining ones,

based on the historical average of these percentages’ variations. The basis to estimate these penetration rates was the number of cable TV households in the US, which is expected to decrease at a CAGR of 1% until 2026¹² (fig.15). For 2026, it is assumed a penetration rate of 72% for ESPN, 79% Disney channel, 58% for Freeform, 82% for National Geographic and 83% for FX channel. Despite the US facing a high rate of cord-cutting, it is believed that Disney will be able to offset this trend and increase its revenue by a nominal CAGR of 3.37% (1.13% in real terms) by charging higher affiliate fees since it is investing in the creation of original content, that allows its channels to differentiate from its competitors. These costs are included in Media’s operating expenses (that include programming and production costs) and are expected to increase until \$19 billion in 2026 (versus \$15 billion in 2019).

Number of subscribers: Domestic Channels

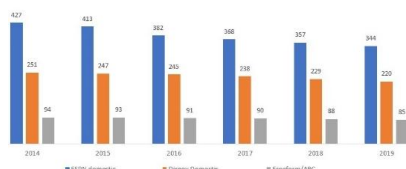


Figure 13 -Source: Disney’s Annual Report

Revenues Cable Network (in million USD)

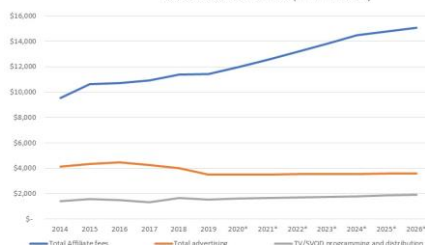


Figure 14-Source: Nova SBE Equity research

Number of US cable TV households

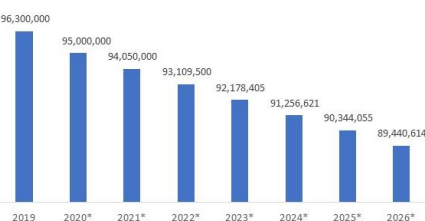


Figure 15-Source: Nielsen Estimates

¹² Nielsen Estimates US

The price charge for commercial time is directly linked to the program's rating, which reflects the market acceptance, and the size and nature of the audience. The decrease in revenues from ad sales on FY2019 occurred to the consolidation of international channels on the *DTC&International* segment, which implied a lower average commercial time, per hour, in minutes, and a reduction on the charged price directly linked to lower global penetration rate, since it only reaches the US audience. The average minute per hour of advertising, on the channels previous owned by 21CF, is expected to decrease at an accelerated rate of -10% until 2026. This decline is based on Fox's announcement, in 2018, where it was expressed the intention of reducing commercial time to 2 minutes per hour. The group estimates that this goal will take some time to be achieved so the estimations for 2026 are 3.35 minutes per hour for National Geographic and 4.78 for FX network. Additionally, it is expected Disney's branded channels and ESPN to have a slower reduction of -0.05% per year reaching 6.18 and 9.32 minutes per hour in 2026, respectively, and -5% for Freeform attaining 4.22 minutes per hour by 2026. Moreover, the revenues from ad sales will benefit from an increase of CAGR of 0.43% until 2026 (higher than the growth rate of 0.3% expected for this market) due to an average increase of 3%¹³ on prices charged per commercial time sold until 2026. Despite the challenges on this market, Disney is investing in better targeting capabilities that will allow the company to reduce the number of ads, while charging higher prices to advertisers, and create a service that is more valuable for them and the costumers. For the revenues generated by TV/SVOD programming and distribution, it is estimated that it will benefit from a nominal CAGR of 3% (0.76% in real terms).

Broadcasting:

The company owns 8 domestic TV stations in New York, Los Angeles, Chicago, Philadelphia, Houston, San Francisco, Fresno, and Raleigh-Durham. Furthermore, Disney has affiliation agreements with 240 US local TV station reaching almost 100% of US television households. Broadcasting revenues represented 34% of total Media's revenue in 2019 and one may divide them into the same sub-segments as the cable business unit. The first subsegment, affiliate fees, is dependent on the number of the local TV station with affiliate agreements with the company and the corresponding charged fees. The number of local televisions with affiliation agreements decreased by approximately 2% during 2019 but it was offset by an increase of 7.5%¹⁴ on fees charged. It is assumed that Disney will maintain the same 240 local televisions with affiliate agreements, during the next six years, and the annual price, charged per affiliate, of \$8.37 million in 2019, will increase at the US inflation rate until 2026. The

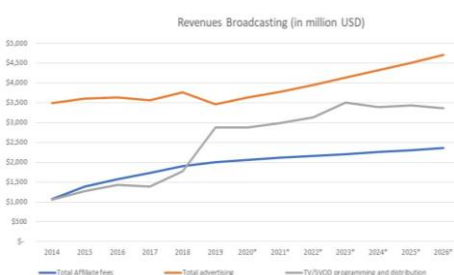


Figure 16-Source: Nova SBE equity research

¹³ <https://www.emarketer.com/content/emarketer-total-media-ad-spending-worldwide-will-rise-7-4-in-2018>

¹⁴ The Walt Disney Company: Form 10-K 2019

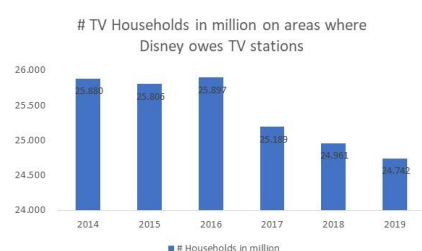


Figure 17-Source: Nielsen’s Research US TV Household

nominal CAGR for this Disney’s broadcasting segment is 2.34% (0.1% in real terms). The reduction on advertising in 2019 (fig.16) was linked to a decrease of viewership directly dependent on a reduction of 3% on US television household¹⁵ penetration on the areas of Disney’s owned domestic television stations, leading to a lower price charged per second of \$539. It is presumed, that the total of Disney’s Households will decrease at 1% a year (fig.17). However, the value charged per second of 2019 will increase at a nominal CAGR of 4% leading to a real CAGR of 2.26% (4.5% in nominal terms) for ad revenues until 2026. The increase in the TV/SVOD programming and distribution sub-segment was a result of the consolidation of TFCF sales. For estimating purposes, it was inferred the number of program hours and the distribution/ programming costs of one hour. In 2019 the broadcast segment produced 57.5 hours of programs and it charged \$49.9 million per each hour, leading to revenue of 2,871 million dollars. To forecast the revenues generated in TV programming/distribution it was estimated the total of program hours per year and the distribution/programming price per hour increasing at the US inflation rate using the price charged in 2019, as a benchmark. The nominal CAGR for TV/SVOD distribution and programming revenue is 2.31% and the real CAGR is 0.08%. The revenues from media network segment are expected to present a nominal CAGR of 3.261%, which is translated to a real CAGR of 1.02%

▪ Valuation

The estimation of this business unit Enterprise Value was done through the Discounted Cash Flow Method using the WACC estimations presented on the section Valuation Methodology DCF, in this report. The expected growth rate used in this analysis (2.05%) was computed by multiplying the Return On New Invested Capital¹⁶ (31%) by the reinvestment rate on new capital¹⁷ (7%). Relying on these assumptions, the estimated Enterprise Value for this segment was \$127,128 million. Additionally, it was conducted a sensitivity analysis between the RONIC and the RR in order to measure the impact on the growth rate of 1% error and it was estimated an interval between [1.68%,2.44%] for the growth. Having this in mind, it was conducted an additional sensitivity analysis between the growth rate and the WACC where the interval for the EV was estimated between [101,676;172,517] (in million USD).

Sensitivity analysis between RONIC and RR				
2.05029%	5.56%	6.56%	7.56%	
30.28%	1.68%	1.98%	2.29%	
31.28%	1.74%	2.05%	2.36%	
32.28%	1.79%	2.12%	2.44%	

Sensitivity analysis with g and wacc				
\$ 127,128	1.68%	2.05%	2.44%	
6%	\$ 149,842	\$ 159,795	\$ 172,517	
7%	\$ 121,208	\$ 127,128	\$ 134,400	
8%	\$ 101,676	\$ 105,483	\$ 110,038	

Figure 18-Source: Nova SBE Equity research



Figure 19-Source: Statista

Parks and Resorts

¹⁵ Nielsen Research: US TV household

¹⁶ $(NOPLAT_t - NOPLAT_{t-1}) / (Invested\ Capital_t - Invested\ Capital_{t-1})$

¹⁷ $(Invested\ Capital_{t-1} - Invested\ Capital_{t-2}) / NOPLAT_{t-1}$

Market overview

Parks and Resorts segment:

In 2018 the number of international tourist arrivals worldwide reached 1,401 million an increase of 57% when compared with 2009. This global outbound tourism has a direct impact on this segment and is expected to continue rising at 3.3% in the Americas, 3.5% in Europe and 4.7% in Asia Pacific until 2021¹⁸.

The global market of amusement parks is forecasted to increase by a nominal CAGR of 9.12% (6.88% in real terms) reaching \$84 billion¹⁹ in 2026 (fig.19) while the revenue for this industry is expected to reach \$21.20 billion in the United States by 2023²⁰. The amusement parks' attendance has been increasing, where the 25 amusement/theme parks benefited from a growth rate of 3.3%²¹ worldwide attendance from 2017-2018, reaching 250 million attendees in 2018. On the Resort global market, the hotel's occupancy rate has been increasing, reaching 72% in the Americas, 66% in Europe and 71% in Asia Pacific in 2018 (fig.20). Aligned with this trend, this market has been showing an increase in revenue per room, where at the end of 2018 Americas presented a value of \$85.83, Europe of \$100.92 and Asia Pacific a value of \$75.53. In the US the average revenue per available room increased by 1.1% in 2019 and it is expected to increase by 1% by 2020. Lastly, it is relevant to mention that the revenue from the global cruise industry is expected to reach \$55 billion by 2026 benefiting from a nominal CAGR of 4.2% (1.96% in real terms) until 2027.

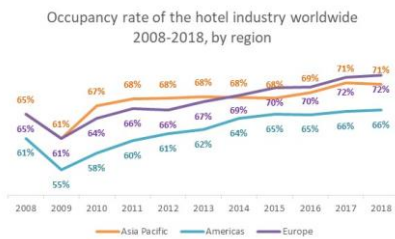


Figure 20-Source: Statista

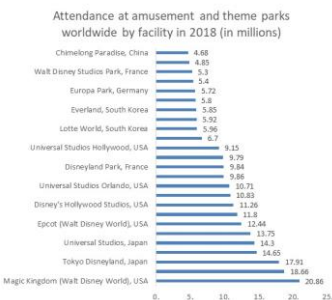


Figure 21-Source: Statista

Market competition:

The biggest Disney's competitors, considering the Parks industry, are *Universal Studios*, with themed parks in the US, in Japan and Singapore; *Six Flags Entertainment Corporation*, which operates 25 properties throughout North America; *Europa Park*, with 54 attractions in Germany; *Cedar Fair* with 12 amusement parks in the US and Canada. As can be noticed in figure 21 Disney had 4 of its parks in the top 5 of attendance in 2018, with Universal Studios also being part of these high attendance parks. Additionally, this segment faces competition from other types of vacation companies like hotels and cruise-ships. On the hotel's side, Disney competes with strong global brands like Hilton Hotels & Resorts (that generated \$7.4 billion in 2019), Marriot (\$5.04 billion) and Holiday Inn (\$3.95 billion). The cruise competition is mainly constituted by Carnival Corporation with a market share of 44%, Royal Caribbean with 24% and MSC cruises with 7%.

¹⁸ Statista: <https://fesrvsd.fe.unl.pt:2099/statistics/274011/outbound-visitor-growth-forecast-worldwide-by-region/>

¹⁹ <https://www.verifiedmarketresearch.com>

²⁰ Statista: industry revenue of "amusement and theme parks in the U.S. from 2011 to 2023"

²¹ Theme Index Report: <https://www.aecom.com/wp-content/uploads/2019/05/Theme-Index-2018-4.pdf>

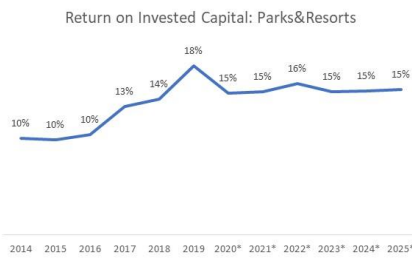


Figure 22-Source: Nova SBE Equity Research

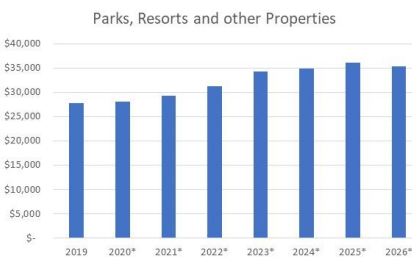


Figure 23-Sources: Nova SBE Equity Research, Theme ParX, and Annual Report

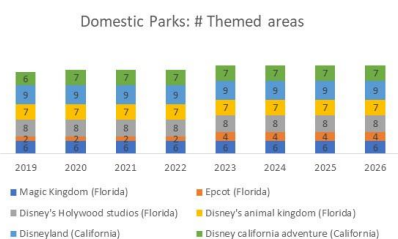


Figure 25-Source: Nova SBE Equity Research

Disney's Parks and Resorts Segment:

Parks and Resorts segment was responsible for 30% of Disney's total revenues and its EBIT margin was 23% in 2019. It presented a nominal CAGR of 7.51% (which is translated into a real growth rate of 5.27%) for the last 5 years. This segment created value in 2019 since it presented a ROIC of 15%, higher than the WACC 6.9%²². In figure 22 it is illustrated the ROIC estimations until 2026 versus the weighted average cost of capital 6.79%²³ estimated for that period. The group estimate that the ROIC for perpetuity will be 15% due to an increase on invested capital versus 2019 (fig.23). The weight of invested capital for this business unit was 16% of the total Invested Capital in core in the fiscal year 2019 and this weight will increase to 19% of the total IC in core by 2026 due to the constant CAPEX investments. The caption with a higher weight on the Invested Capital segment is the Parks, Resorts and other properties which, in 2019, represented 107%²⁴ of Disney's Parks and Resorts' Invested Capital. To estimate this caption, the group analyse Disney's future investments for this segment, its competitors and the market general opinion. It was also created a timeline of the expected future investments for this sector represented in figure 24. In the following sections of this report, it is presented the investment in CAPEX with more detail, segregated by sub-segment. Those values of investments were added to the CAPEX of the previous years since Disney's Parks, Resorts and other property are carried at historical cost.

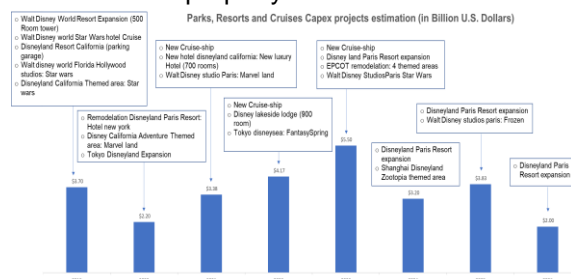


Figure 24-Sources: Nova SBE Equity Research, Theme ParX, and Annual Report

The expenses and selling, general and administrative costs on this segment were forecasted as a percentage of revenues equal to the 2019 level. The estimated operating expenses for this segment are \$16.957 billion by 2026 (which represents 52% of revenues), including operating labor, costs of goods sold, infrastructure costs, supplies, commissions, and entertainment offerings. Concerning selling, general and administrative costs one may forecast that they will reach a value of around \$4 billion at the end of the fiscal year of 2026.

Parks:

Disney operates parks in the US, Europe, and Asia. In the Domestic Parks segment, the company has 4 parks in Florida: Magic Kingdom, EPCOT,

²² From Bloomberg at 17/11/2019

²³ From Nova SBE Equity Research

²⁴ Nova SBE Equity research

Domestic Parks	Attendees ('000)	CAGR
Magic Kingdom	3,477	2%
Epcot	6,344	2%
Disney's Hollywood studios	1,657	2%
Disney's animal kingdom	2,006	2%
Disneyland California	2,379	3%
Disney california adventure	1,693	2%

International Parks	Attendees ('000)	CAGR
Disneyland Paris	1974	0.3%
Walt Disney Studios Park (Paris)	1389	3.0%
Hong Kong Disneyland	861	-2.0%
Shanghai Disneyland	1719	2.0%
Tokyo Disneyland	2583	1.0%
Tokyo DisneySea	2115	1.0%

Figure 26-Source: Nova SBE Equity Research

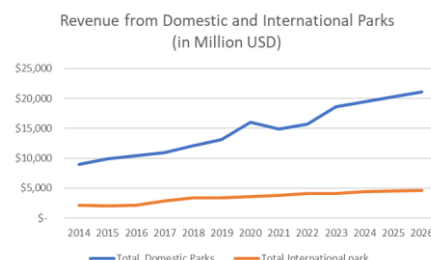


Figure 27-Source: Nova SBE Equity Research

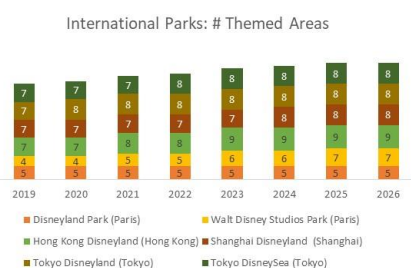


Figure 28-Source: Nova SBE Equity Research



Figure 29- Source: Nova SBE Equity Research and Annual Report

Hollywood Studios, and Animal Kingdom and 2 parks in California: Disneyland and Disney California Adventure. In the international parks, Disney operates Disneyland and Walt Disney Studios in Paris, Disneyland Park in Hong Kong, Disneyland in Shanghai and Disneyland and Disney Sea in Tokyo.

To estimate revenues generated by Disney's parks, they were separated into Domestic and International Parks. For both, it is considered as value drivers, the average guest spending and the number of attendees. It was used the average number of attendees per themed area, in 2019, as a benchmark and the historical annual growth rate was employed to estimate the future years. Additionally, it was forecasted for each year the number of themed areas in each park (based on market perspectives and information disclosed by Disney) and multiply those with the estimated number of attendees per area. On the Domestic Parks, it was estimated an average of attendees per themed area for each park in 2019 and the respective annual growth rate until 2026 (fig.26). By this year, is estimated that the sum of all the themed areas in domestic parks equals 41 and the total attendance of these 6 parks reaches 113 million (fig.25). Additionally, it is expected that the average guest spending increases at the US inflation rate until 2026 leading to a revenues' nominal CAGR of 5.34% (3.1% real CAGR) for the domestic parks (fig.26). On the international Parks, the average attendees per themed area for each park during FY2019 are presented in figure 27. In 2026 it is expected that the total of themed areas in international parks equals 45 (fig. 28). One trend that is included in the CAGR for the Hong Kong Disneyland is the anti-government protests that have been happening since June 2019, which are expected to have an impact for the next few years. This country's tourism reduced by 40% when compared with 2018, and the group believes that it will slowly recover its levels due to political, social and economic uncertainty. For the average guest spending, it was used the 2019 value as a benchmark and the growth rate used for each year was the average of France, China, and Japan inflation. The expected nominal CAGR for revenues from the international parks is 4.15% until 2026 (fig.27) where, in this year, it is predicted a total of 72 million attendees. The predicted investment in CAPEX for Domestic Parks is as follows: 4 themed areas in EPCOT by 2023, which will be the largest remodulation in a Disney park, which will totalize \$2billion; a new themed area, Marvel Land, in Disneyland California Adventure by 2020, that has a budget of \$1 million. For International Parks, The Walt Disney Studio will benefit of a total investment of \$2.5 billion in 3 new themed areas: Marvel Land in 2021, Star Wars in 2023 and Frozen in 2025, Hong Kong Disneyland will also benefit from an investment of \$700 million on 2 new themed areas: Frozen Land in 2021 and additional themed area in 2023, the Disneyland Shanghai will also have an additional themed area, Zootopia in 2024, that has a budget of \$700 million. Additionally, Tokyo

Disneyland and Tokyo Disney Sea will benefit from an investment of \$3.5 billion between 2020 and 2022, with 2 new themed areas.

Resorts:

On Disney's Resort segment, the group segregate the revenues from domestic and international resorts, and it was considered occupancy rate, per room guest spending and available room nights. For forecasting the available room nights available, it was used a historical average of available nights per room and it was multiplied by our estimations of the number of rooms per year until 2026, using the available information on the Parks, Resorts and cruises CAPEX projects estimation included in the Disney's Parks and Resorts Segment section.

On the Domestic segment, the company has 3 resorts: The Walt Disney Resort Florida (with 18 hotels with 22,500 rooms), Disneyland California (with 3 hotels with 2,400) and Aulani Hawaii (with 1 hotel with 351 rooms) (fig.29). The historical average of available nights per room is 406, the occupancy rate (88%) was estimated using an average of the last 5 years and the per room guest spending was projected to grow at the US inflation rate until 2026. It is expected that the Domestic Resort segment will benefit from a nominal CAGR of 3.27%

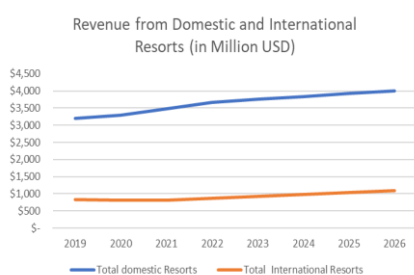


Figure 30-Source: Nova SBE Equity Research

until 2026 (fig.30). On the international Resort segment, Disney has Disneyland Paris with 7 hotels Disneyland Hong Kong with 3 hotels, Shanghai Disney Resort with 2 hotels and Tokyo Disney Resort with 4 hotels (fig.31). The average available of nights per room on this segment is 278 and it was multiplied by the number of rooms on each Resort. We segregate these values since it is important to distinguish between geography segments to capture the impact of the different exchange rates: EUR/USD, CNY/USD and JPY/USD and the different inflation rates for each geography in the value of per room guest spending. The occupancy rates were estimated as a historical 5-year average and it is 78% for Disneyland Paris, 79% for Hong Kong, 88% for Shanghai Disney Resort and 78% for Tokyo Disney Resort. This international segment will present a nominal CAGR of 3.88% in revenues until 2026 (fig.30). In this segment the CAPEX estimation was based on the following investments: in Walt Disney World Florida Resort where the company will invest \$350²⁵ million in the construction of a new hotel with 900 rooms (Disney Lakeside Lodge in 2022); in Disneyland California on a new Luxury Hotel with 700 rooms by 2021, estimated in \$1,000 million. For the international Resorts, Disney will invest \$200 million on the remodulation of NY Hotel located in Disneyland Paris and will invest \$7.5 billion from 2023 until 2026 in the expansion of Hotels in Disneyland Paris by building two new hotels that will add 1,856 rooms until 2026 and in Tokyo Disney will invest \$1million on a new hotel with 475 rooms by 2025.



Figure 31-Sources: Nova SBE Equity Research and Annual Report

²⁵ <https://forums.wdwmagic.com/threads/reflections-%E2%80%93-a-disney-lakeside-lodge-project-89-development-near-fort-wilderness.938671/page-19>

Cruises:

Disney Cruise Line is a 4-ship vacation cruise line: Disney Magic and Disney Wonder with 875-stateroom ships and the Disney Dream and the Disney Fantasy are approximately 1,250-stateroom ships. The Company is expanding its cruise business by adding 3 new ships in 2021, 2022 and 2023. The new ships will have approximately 1,250 staterooms and according to Disney's annual report, the investment for those will be \$1,200 million for the cruise acquired in 2021 and \$1,320 for the cruises acquired in 2022 and 2023. The estimation of revenues for this segment is based on the total staterooms (4,254 in 2019) and the “per stateroom” guest spending (\$241 in 2019). Using the future new ships to estimate the additional staterooms and relying on the assumption that the “per stateroom” guest spending will grow at the US inflation rate it is estimated that this segment will have a nominal CAGR of 11.98% until 2026.

Valuation

The expected growth rate for this segment (4.43%) was computed multiplying the RONIC (20%) by the RR on new capital²⁶ (22%). Relying on these assumptions the estimated Enterprise Value for this segment was \$136,077. Additionally, it was conducted a sensitivity analysis between the RONIC and the RR in order to measure the impact on the growth rate of 1% error and it was estimated an interval between [4.02%;4.87%]. It was also conducted a sensitivity analysis between g and the WACC where the interval for the EV was estimated between [90,590;298,288] (in million USD).

Sensitivity analysis between RONIC and RR				
4.43387%	19%	20%	21%	
21%	4.02%	4.24%	4.45%	
22%	4.21%	4.43%	4.66%	
23%	4.40%	4.63%	4.87%	

Sensitivity analysis with g and wacc				
\$ 136,077	4.02%	4.43%	4.87%	
6%	\$ 185,072	\$ 224,899	\$ 298,228	
7%	\$ 121,861	\$ 136,077	\$ 156,901	
8%	\$ 90,590	\$ 97,340	\$ 106,314	

Figure 32-Source: Nova SBE Equity Research

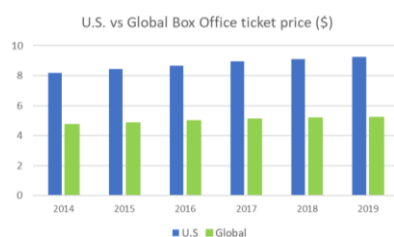


Figure 33-Source: Statista

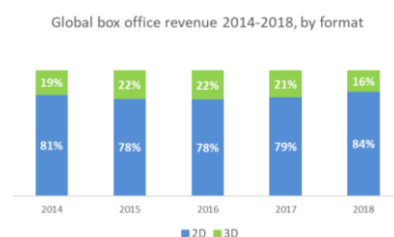


Figure 34-Source: IMDb

Studio Entertainment

Market overview

Studio Entertainment segment:

The number of tickets sold worldwide presented low volatility over the past 10 years, with a CAGR of around -0.5%, which has been offset by an increase in the global ticket price with a CAGR of 1.6% (-0.4% in real terms) for the same period (fig.33). This is a segment that presents 4 revenue sources: box office (in 2D and 3D formats, fig.34), home distribution (through TV licensing, online distribution and physical formats), licensing on streaming platforms and advertising in movies. In the box office market, the 3D format does not present future growth expectations, remaining in the 20% level of revenues. For cinema advertising, it is expected to grow at a CAGR of 3.6% (1.4% in real terms) from 2018 to 2023, to annual revenues of \$1.1Billion. There were 800 movies released in 2019 but since this is a very concentrated market, 1/3 of the total revenue in box office came only from 10 movies. Despite having worldwide revenues, the companies must focus as well, on domestic markets for producers and distributors, since over the past

²⁶ $(\text{Invested Capital}_{t-1} - \text{Invested Capital}_{t-2}) / \text{NOPLAT}_{t-1}$

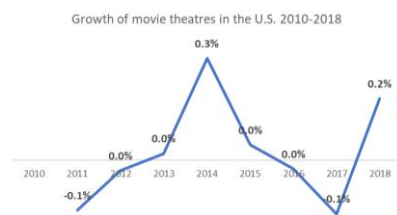


Figure 35-Source: Statista

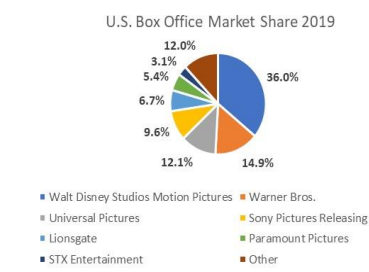


Figure 36-Source: IMDb

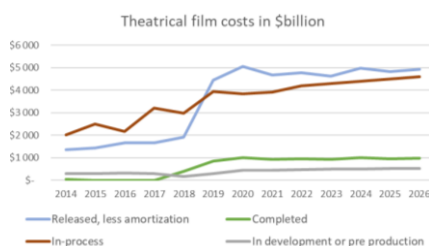


Figure 37-Source: Nova SBE Equity Research and Annual Report

five-year around 33% of revenues from this market result from the movies' domestic performance. For the U.S., this market registered \$10.3 Billion in box to office, also showing a noticeable concentration of revenues, since in 2019 36% were provided by 8 movies from 3 different Studios. This is a segment that on a domestic perspective is expected to grow on a slow and steady paste with a CAGR for 2023 of 0.8%. The growth in Streaming services has flattened the growth in movies' theatrical distribution, resulting in a reduction of movie theatres growth in the U.S. (fig.35).

Market competition:

In 2019 Disney holds 36% of market share for the Studio Entertainment segment, followed by Warner Bros Studios (14.9%), Universal Picture (12.1%) and Sony Pictures (9.6%). Has mentioned before, this is a highly concentrated market, with over 113 operating domestic Studios, 88% of revenues coming from theatrical distribution are concentrated in only 7 different market players.

The Walt Disney Studio has been setting the bar for other competitors since, in the past years, its movies have been leading in worldwide performance where, in 2019, it has presented 4 movies on the top five performance charts. This is also reflected in their average performance per release, approximately \$154.8 million, followed by Sony Pictures with \$58.5 million per movie. This industry is facing the return of pirate streamers which is showing a major impact on this segment since, in 2018, 24% of U.S consumers watched a movie on a piracy platform, while it was still in theatres. The large offer in the streaming platform is pushing consumers to piracy streamers, but higher control mechanisms are being implemented by governments and regulatory mediators, so this impact will be reduced over time.

Disney's Studio Entertainment Segment:

The Studio Entertainment segment can be divided into three business units: Theatrical Distribution (43% of total revenue), Home Entertainment (17%) and TV Service Video on Demand and others (40%). In 2019 it represented 16% of Disney's total revenue with an EBIT margin of 24%, lower than historical records, due to higher operating expenses. This reduction on EBIT margins resulted from the acquisition of Fox's Studios, that historically presented lower box office revenues per movie (-41%) and had a 22.5% increase in film production expenses. Additionally, this segment presented a CAGR of revenues of 7.33% for the last 5 years (figure 37) and a ROIC of 13% (figure 38) in 2019, higher than the WACC 6.9%²⁷, therefore being able to create value during that period.

On the total of Disney's Invested Capital, this segment had a share of 19.6% in 2019, which represented over \$31billion in this account. The biggest percentage of this value comes from film production costs, which has mentioned having

²⁷ From Bloomberg at 17/11/2019

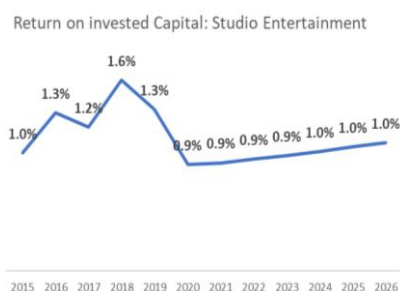


Figure 38-Source: Nova SBE Equity Research and Annual Report

increased in the past year due to the acquisition of 21CF. These costs can be segregated in released (47% of total), completed (9%), in-process (41%) and pre-production (3%) and for forecasting purposes it was used FY2019 has a benchmark since on released costs and in-process costs there were major increases this year, which we believe it is the result of different quality standards in Disney and Fox distribution and production processes. For these accounts, we estimated continuous growth at the inflation rate and depending on the number of movies in each stage. For the completed and pre-production costs we forecasted growth at the average of the former years due to its historical low volatility.

As for selling, general and administrative costs, Disney's acquisition of 21CF resulted in a low impact and historically it represented 29% of Disney's revenues every year. Depreciations and amortizations are very insignificant in this segment and were forecasted based on historical values. Having this in mind, we expect that, for 2026, Disney's operating expenses will be 43% of revenues, with theatrical film costs of \$11 billion that year.

In figure 38 it is presented our estimations for the return on invested capital until 2026 versus the weighted average cost of capital 6.79%²⁸ estimated for that period. The CAGR for core result will be 4.08% for the Studio Entertainment segment and it is expected that synergies from Fox Acquisition will result in a reduction of the 5-year CAGR on operating expenses (from 10.6% to 5.4%), leading to an expected ROIC for this segment perpetuity of 10.5%.

Theatrical Distribution:

In the Studio Entertainment market, the performance of a company is as good as the performance of their movies firstly on the theatres and later on the at-home platforms (both digital and physical). Due to unpredictability regarding movies' performance, it was elaborated a revenue forecast based on 2 factors: the number of movies released on the theatrical distribution segment and the average revenue per movie, eliminating, this way, the volatility from movie's performance. Starting from the number of movies released estimation, it was analysed the historical releases of Fox and Disney's Studios (figure 39). Looking at the past 5 years, we saw that the number of movies released adds low volatility (going around 10 movies from Disney Studios and 15 from Fox). After the acquisition, Disney announced that Fox would, from now on, only release half of the movies, mainly to avoid competition from the films and due to expected synergies from the Studios. At the same time, Disney already announced some future movies until 2026, which was also taken into consideration. With these three factors in mind, it was estimated the movies that will be released, going from 21 to 17 movies launched each year. For the average revenue per film, historically Disney has much higher returns per movie than Fox (figure 40) and

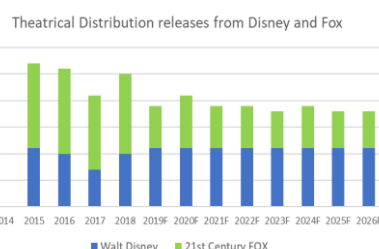


Figure 39-Source: Nova SBE equity research and Annual Report

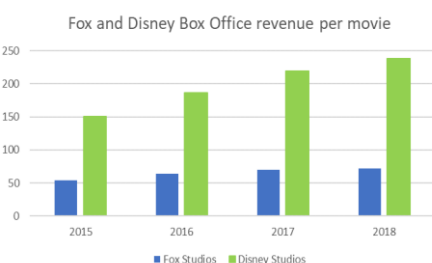


Figure 40-Source: IMDb

²⁸ From Nova SBE Equity Research

after this acquisition, despite a better performance from higher capacity, the average individual performance of each movie went down by 41% in 2019. Operating on the Entertainment Industry, which is not a basic need, Disney is highly dependable on the availability of its consumers to spend resources on secondary needs. Therefore, we forecasted that our average revenues would grow at the U.S. Consumer Price Index taking as benchmark FY19 average revenue per movie released. According to our forecasting plan, Disney is expected to present a CAGR of 2.38% (0.14% in real terms) for the Theatrical distribution segment.

Home Entertainment:

In this segment, Disney presents distribution in digital and physical formats (DVD and Blu-ray). Due to market replacement of physical formats with digital (figure 41), the latter formats presented a CAGR of 22% (18% in real terms), for the last 5 years, while physical a CAGR of -12%. Disney started focusing their physical formats on their Signature Collection (a slot of their best performing films) and in Blu-Ray formats, that currently are holding the physical format market (83%) and invest mostly in digital formats. For forecasting purposes, it was assumed Disney would launch each movie produced in a digital format since there are not many costs associated. For the physical formats, we looked at the previous publications of their DVD Signature Collection and Blu-ray formats, and with the same reasoning as in Theatrical Distribution, it was considered the announced releases and forecasted possible ones based on historical variation (2 to 5 releases per year in DVD and 10 to 14 in Blu-ray). Once more, Fox's movies showed lower performance on digital formats than Disney's and it implied a decrease in revenues per release of -37% in 2019. Taking this as a starting point for our forecast (figure 42), we estimated a continuous growth for revenues per release according to the Consumer Price Index, resulting in a CAGR until 2026 of 4.71% (2.49% in real terms).

TV SVOD Distribution and other:

Disney operates in this segment by licensing its movies on DTC platforms, a market that has been growing up to two digits in the past years (figure 43). Resulting from overall market growth, in the past five years, Disney has shown a CAGR of 8.9% in this business unit. For forecasting purposes, we looked at estimations on the growth of SVOD revenue and the number of subscribers until 2024, showing an average growth rate of 16.03% and 11.09% respectively. Using these market measures and Disney historical performance as a benchmark, we estimate that Disney's TV/SVOD distribution and others will present a CAGR of 8.26% (6.03% in real terms) until 2026.

▪ Valuation

Global Home Entertainment Consumer Spending (\$Billions)

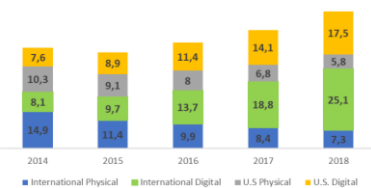


Figure 41-Source: MPAA

Home Entertainment released per format

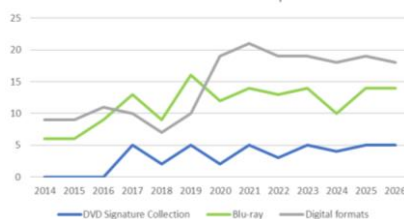


Figure 42-Sources: Nova SBE equity research and annual report

Global SVOD revenues and number of subscribers

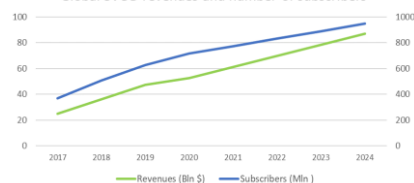


Figure 43-Source: Statista

Sensitivity analysis between RONIC and RR

3.18041%	18.71%	19.71%	20.71%
15.14%	2.83%	2.98%	3.13%
16.14%	3.02%	3.18%	3.34%
17.14%	3.21%	3.38%	3.55%

Sensitivity analysis with g and wacc

\$ 63,307	2.83%	3.18%	3.55%
6%	\$ 78,767	\$ 85,622	\$ 94,994
7%	\$ 59,898	\$ 63,307	\$ 67,657
8%	\$ 48,358	\$ 50,286	\$ 52,648

The expected growth rate for this segment (3.18%) was computed multiplying the RONIC (20%) by the RR on new capital²⁹ (16%). Relying on these assumptions the estimated Enterprise Value for this segment was \$63,307million. It was conducted a sensitivity analysis between the RONIC and the RR in order to measure the impact on the growth rate of 1% error and it was estimated an interval between [2.83%;3.55%]. Additionally, it was done a sensitivity analysis between g and the WACC where the interval for the EV was estimated between [48,358;94,994] (in million USD).

Consumer products

Market overview

Consumer Products and Interactive Media segment:

For the consumer products and Interactive Media segment, we will be looking at three different markets related to Disney's business operations: Toys, Gaming, and Publishing. The Toy industry has been presenting a stable growth in the past years at a global level (5-year CAGR of 2.7%) and the U.S. (5-year CAGR of 3.8%) (figure 45). For the U.S. this growth is highly correlated with the disposable income levels from consumers since toys represent a second level need for customers. Also, when looking at the number of toys exported from the U.S., there has been a continuous growth and it is expected a CAGR of 3.84% until 2024. Currently, China manufactures over 70% of global toy demand and present \$40 Billion in revenues in 2018 (5.6% growth for the year).

Physical console games show a negative performance on a 5-year past analysis (-1.82%) (figure 46), as for video game consoles (-0.51%). In this segment, companies have invested large amounts in Virtual Reality, showing in 2018 53% of the total investment in this industry. Players such as Sony have already started releasing some innovation in this area, expecting a market value of \$6Bilion by 2023. Digital Gaming advertising and streaming video-game multiplayer competition is the new main source of revenue for this market, since every year the number of players increase (expected CAGR of 4.3% until 2021, 2.03% in real terms)) and consequently, the fees for this revenue sources.

Looking at the publishing industry, there has been a constant decrease in physical publishing revenues, which has been offset by a constant growth in digital consumption of published content. This market is expected to grow with a 5.96% 5-year CARG (3.73% in real terms) for epublishing revenues worldwide (figure 47).

Figure 44-Source: Nova SBE Equity Research

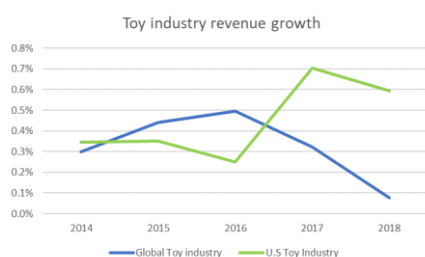


Figure 45-Source: The NPD Group

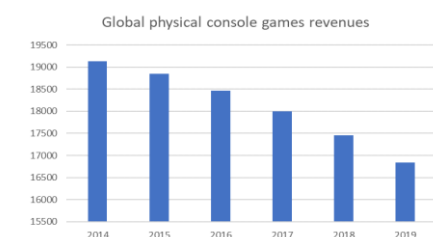


Figure 46-Source: PWC



Figure 47-Source: WePC

²⁹ $(\text{Invested Capital}_{t-1} - \text{Invested Capital}_{t-2}) / \text{NOPLAT}_{t-1}$

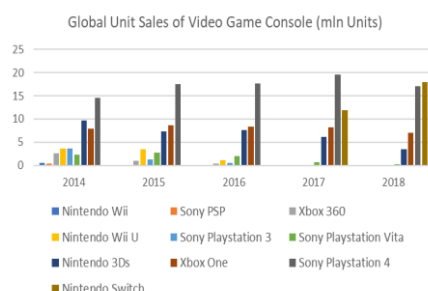


Figure 48- Source: WePC

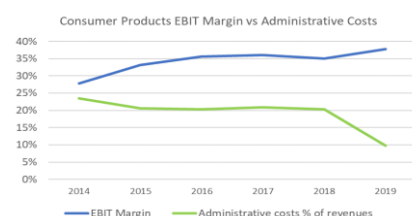


Figure 49-Source: Disney's Annual Report

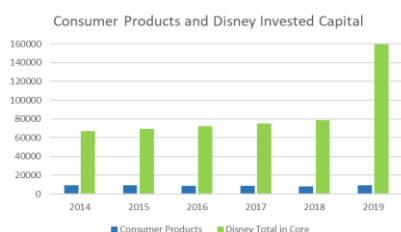


Figure 50-Source: Disney's Annual Report

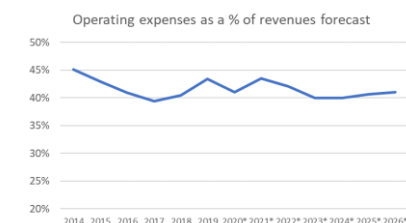


Figure 51-Sources: Nova SBE Equity Research and Annual Report

Market competition:

For the Consumer Products and Interactive Media segment, Disney faces a strong and wide market competition, with substitute products coming from players that operate in completely different segments.

Looking at Toy's industry, it is led by Mattel with 35.25% and 12.5% market share at domestic and international markets respectively, followed by Hasbro with 12.7% and 5.68%. Operating as retailers, this market had over 145,000 in 2019.

As for the video game console market, it is noticeable how innovation plays a decisive factor for companies to succeed, with a short life-cycle for innovations. This market is highly dominated by Sony Interactive Media Entertainment (PlayStation), Nintendo and Microsoft (Xbox) (figure 48). Amazon is the top global retailer in all markets that Disney operates with a market share of 17%., of which 59% comes from domestic sales and 41% from international.

Disney's Consumer Products and Interactive Media Segment:

The consumer products sector is the smallest business unit of Disney since it is a sector that is highly dependent on the other segments' performance. This business unit focus on producing and selling Toys, Video-Games and books through Disney stores, licensing and retailers.

In 2019 it represented 6.5% of Disney's total revenue with the highest EBIT margin for Disney's segments (38%). This level of margin has been increasing each year, mainly because of administrative cost optimization (figure 49).

Additionally, the Consumer Products segment presented a CAGR of revenues of -2.6% for the last 5 years, but a ROIC of 17% in 2019, higher than the WACC 6.9%³⁰, meaning it created value in 2019. This means that Disney is focusing its resources on cost optimization rather than increasing revenues, a mindset we expect them to swap in future periods. As observed in the previous segments, Disney has significantly increased its Invested Capital due to new service/product development and long-term investments. Despite this, on the Consumer Products, we analysed an opposite movement, with a lower percentage of invested capital injected in this segment, year after year (Figure 50). In 2019 the segment represented only 5.3% of the total invested capital, coming from an investment of \$8,487 billion in the year in question. From a cost perspective, consumer products and interactive media have a continuous investment in their branded stores, production of merchandise, toys and video games and storage facilities. It is also continuously investing in new product development related to the movies released. These operating expenses have shown to fluctuate as a percentage of revenue between 45% to 39% and we forecasted them to close this interval between 40% and 43.5% due to past cost optimization approach (fig.51). Disney developed standardized contractual procedures for companies

³⁰ From Bloomberg at 17/11/2019

that want to license their brands and products, resulting in reductions in selling and administrative costs on the previous year. Now, with the acquisition of Fox, we expected these costs to rise again because Disney's portfolio increased with 21CF brands. We forecasted that this increase in Disney's Brand Equity will take these operational expenses to a rate of 19% on total revenues for consumer products. We forecasted ROIC to remain in approximate levels until 2026 of 18%. It is also expected a CAGR for the core result of 2.31% (0.08% in real terms), as a result of revenues' increase.

Licensing, Publishing, and Games:

When looking at the Consumer Products and Interactive Media sector, as said before, Disney not only produces, but it also licenses its brands to other Toy, merchandising and game development companies which leads to thousands of Disney products being currently commercialized worldwide, making it impossible to estimate the number of current products on the market and of future products on the market. We were also able to examine from the annual report that the main reasons for the performance of this sector were due to the performance of merchandise related to movies (which is directly related to the Studio Entertainment performance) and from the performance of the retail chains in promoting and commercializing Disney products. For forecasting purposes, we studied the markets where Disney presents business units and how they are expected to grow in the future. We look at the Retail industry, the Toy industry, and the gaming industry and recall data from past and future growth rates of these markets. With these data we calculated the correlation of Disney's past growth on this sector (figure 52), with the past performances of these businesses and reach four main factors that could explain Disney's performance: The Global Unit Sales of Current Generation Video Game Console, the value of physical console games, U.S. Toy market value and U.S Exported Toys. Taking future expectations on these indicators, we forecasted a CAGR for the Licensing, Publishing, and Gaming of 1.22% (figure 53).

Retail:

The Retail segment is increasing its weight on Disney's sales, year-after-year. In 2019 it represented 34% of Disney's total revenue in this segment, while in 2014 only 31%. We expect this to keep increasing and we forecast the sales' percentage to grow at an average rate of 2.6% until 2026 where it reaches 40.6% of total revenues. We also expect Disney's retail for consumer products to grow based on the market analysis presented for Licensing, Publishing, and Gaming. Having this in mind, it is expected that this business unit will have a CAGR of 4.68% until 2026 (2.25% in real terms) (figure 54).

Valuation

	P value
Global Unit Sales of Current Generation Video Game Console	0.122
Physical console games	0.063
U.S. Toy market value	0.091
U.S Exported Toys	0.136

Figure 52-Source: Nova SBE Equity Research



Figure 53-Source: Nova SBE Equity Research



Figure 54-Source: Nova SBE Equity Research

Sensitivity analysis between RONIC and RR			
2.37%	28.62%	29.62%	30.62%
7.00%	2.00%	2.07%	2.14%
8.00%	2.29%	2.37%	2.45%
9.00%	2.58%	2.67%	2.76%

Sensitivity analysis with g and wacc			
\$ 29,636	2.00%	2.37%	2.76%
6%	\$ 33,532	\$ 35,953	\$ 39,099
7%	\$ 28,169	\$ 29,639	\$ 31,463
8%	\$ 24,601	\$ 25,576	\$ 26,750

Figure 55- Source: Nova SBE Equity Research

The expected growth rate for this segment (2.37%) was the result of multiplying the RONIC (30%) by the RR on new capital (8%) and the estimated Enterprise Value for this segment was \$29,639 million. On top of these, it was conducted a sensitivity analysis between the RONIC and the RR in order to measure the impact on the growth rate of 1% error and it was estimated an interval between [2%,2.76%]. Moreover, it was conducted a sensitivity analysis between g and the WACC where the interval for the EV was estimated between [24,601;39,099].

Direct-to-consumer & International

Market overview

Direct-to-consumer and Cable International Channels segment

The Streaming market has been growing at an accelerated rate presenting a nominal growth rate of 31% from 2018 to 2019 and it is expected to reach a global revenue level of \$87 billion by 2024 (figure 56) with many global subscribers of 947 million³¹. Currently, 56% of American consumer of streaming platforms have more than one subscribed service³² and this trend is expected to continue rising due to an increase in competition offering new services with exclusive content. For the International Channels segment, the Chinese and Indian markets are expected to present a nominal CAGR from 2019 until 2023 of 2% and 11% respectively. However, the European market is expected to present a nominal CAGR for the same period of -1%. (figure57)

Market competition

There are several different competitors in this market. Currently, Netflix owns 23% of global SVOD's subscribers and is one of the biggest contributors to cord-cutting, due to the quality and diversity of content at an affordable price which leads to consumers' migration from traditional TV services to streaming platforms. Thanks to the rapid growth of this market mature companies like Amazon, Apple, Disney and other broadcast companies like ViacomCBS and Comcast entered this segment. In 2019 Amazon Prime Video was the service with a wider range of content. Nonetheless, Netflix is the one that has the content with more quality according to market perspectives³³. However, Amazon will be able to keep up with competition like Netflix due to the affordable prices charged for high video quality and due to the Student's discounts, that gives an advantage over its competitors (figure 58). During FY2019 ComcastCBS integrated this market with the streaming service BET+ with 2 original series and 1 film. During the FY2020 Apple TV+ and Disney+ joined the market with \$6 billion³⁴ and \$1 billion³⁵ on the original content's budget. Additionally, the competition from this

SVOD revenue worldwide 2016-2024 (in billion U.S. Dollars)

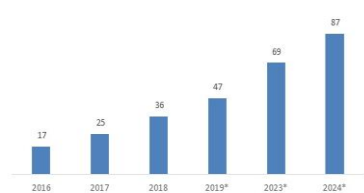


Figure 56-Source: Statista

International Pay Tv revenue

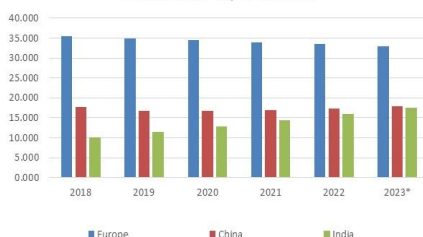


Figure 57-Source: PWC Media Outlook and Statista

	Price	Video Quality
Netflix		
Basic	\$ 9.00	Low
Standard	\$ 13.00	Medium
Premium	\$ 16.00	High
Amazon Prime		
standard	\$ 12.99	High
Student discount	\$ 6.49	High

Figure 58-Source: Statista

³¹ Statista: <https://www.statista.com/statistics/949391/svod-subscribers-world/>

³² <https://today.yougov.com/topics/media/articles-reports/2019/10/30/how-many-streaming-services-are-americans-willing->

<https://www.digitaltrends.com/home-theater/best-on-demand-streaming-services/>

³⁴ <https://9to5mac.com/2019/08/19/apple-original-content-spending/>

³⁵ <https://www.slashfilm.com/disney-plus-costs/>

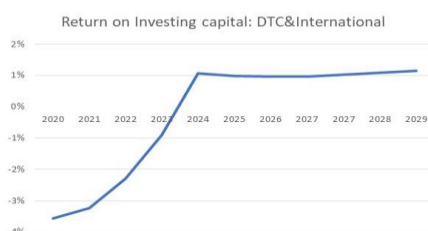


Figure 59-Source: Nova SBE Equity Research

sector is driven by pirate operators that can offer the same content for free, usually with low quality.

Disney's DTC&International:

In 2019 this segment was responsible for 13 % of Disney's total revenues and its EBIT margin was -19%. As one can infer, this new segment presented a negative net income of -\$1,346 million especially due to high operating expenses around \$8,497 million, consisting mainly in programming and production costs, technical support costs, operating labour and distribution costs. In 2019 the operating expenses on this segment represented 91% of its revenues and we estimate that by 2026 those will represent 73% of the revenues.

It is projected that the DTC&International segment net income will reach a breakeven point in 2024 with a net income of \$523 million³⁶. The estimation for the segment's ROIC is presented in figure 59. This value will be negative from 2020 until 2023, meaning that this segment is destroying value since the ROIC is lower than the WACC 6.79%³⁷. After 2023, when the net income reaches the breakeven point, and until 2030, this value will be around 1%. The weight of invested capital for this segment was 29% of the total IC in core and we expect that this value will increase to 32% in 2026 mainly driven by film and television costs and intangible assets value. The Invested Capital is mainly constituted by goodwill (which represents 51% of IC³⁸), by Intangible assets (22%) and by film and television costs and advances (10%).

Direct-to-Consumer:

During the FY2019 the company creates this new DTC segment that includes the following streaming platforms: ESPN+, Hulu, Hotstar, and Disney+. In the same year, Disney had the full control of Hulu and acquired Hotstar through the acquisition of 21CF. The new branded streaming platform, Disney + was released in November of 2019 and it has already 10 million subscribers. To forecast the DTC's revenues, we split between subscription fees and advertising sales. In the first sub-segment, it was considered the number of paid subscribers and the annual price charged per subscription. For the fiscal year of 2019, the estimated number of subscribers was 2 million to ESPN+, 24 million for Hulu, 30 million for Hoststar and 0 for Disney since it was released after the closing of FY2019. The subscription fees estimated for each channel during 2019 were \$50 for ESPN+, \$200 for Hulu and \$42.47 for Hotstar. The revenue from subscription fees generated by these 3 steaming services was 3,075 million in 2019. In 2020 we expect a nominal increase of 56% versus 2019 due to the release of Disney+ with 18 million subscribers estimated by the end of FY2020 and an annual price of \$70 per subscription. For the remaining streaming platforms, we expect that

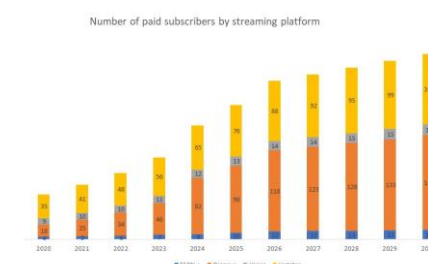


Figure 60- Source: Nova SBE Equity Research

³⁶ Nova SBE Equity research and <https://stratechery.com/2019/disney-and-the-future-of-tv/>

³⁷ From Nova SBE Equity Research

³⁸ Invested Capital

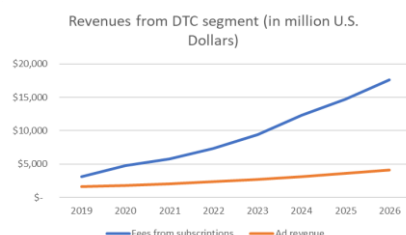


Figure 61-Source: Nova SBE Equity Research

subscribers will grow at a CAGR equal to 19.68% for ESPN+, 7.13% for Hulu and 16.67% for Hotstar (figure 60). Additionally, we forecast that Disney+ will increase its subscribers base by a CAGR of 46% reaching 118 million subscribers in 2026. For the price charged per subscribers, we forecast it as growing at the US inflation rate. These estimations combined with our predictions of the evolution of subscribers give a nominal CAGR of 28.32% (26% in real terms) for the subscriber fees revenue (figure 61). For the advertising sales revenue estimation, since it is directly dependent on the level of commercial audiences, it was used the audience on ad-supported and the revenue generated by viewer wherein 2019 ESPN+ presented a 2 million audience on ad-support, Hulu 20 million and Hotstar 270 million. The annual revenue generated per viewer on ad-supported was \$10 for ESPN+, \$44.99 for Hulu and \$2.49 for Hotstar reaching a value of \$1,584 million from advertising revenues. Disney+ will not have an impact on this segment since the company branded streaming platform will be ad-free. For forecasting purposes, we believe that the number of ad-supported audiences will increase at the same CAGR as the paid subscribers and the revenue generated per viewer will increase at the US inflation rate leading to a nominal CAGR of ad revenues of 15% (fig.61). The operating costs for this segment represented 120% of DTC's revenue in 2019. To estimate these costs for the future it was conducted a peer analysis. As mentioned, the biggest competitor in this segment is Netflix and its operating expenses have an average of 85% of total revenues in 2019. Since Disney has a lot of original content, we estimate that it will be able to have lower costs than Netflix, since it needs a lower budget for the creation of its series and movies. From 2024 we estimate that Disney will be able to have operating expenses of 75% of revenues from DTC. This segment operating income is expected to be \$631 million by 2026 (fig.62).

International:

The company change its recording system during the FY2019 and start recording the international channels separated from the domestic ones. We expect that the number of subscriptions in 2019 (figure 63) grows at 1% per year and the rates charged per subscribers will rise at the global inflation rate. For the international channels' affiliate fees' revenue, we project a nominal CAGR of 2.7% (real CAGR 0.46%) (fig.64). Concerning ad sales, it was assumed the same average commercial time as in the domestic channels and that the price charged per minute will rise until 2026 at the global inflation rate. With these assumptions, it is expected that the ad sales from international channels will grow at a nominal CAGR of 0.26%. The cost structure estimation for this segment is similar to the Media Network where the operating expenses represent 60% of revenues. In 2026 we expect that the international channels operating income will be \$606 million.



Figure 62-Source: Nova SBE Equity Research

Channel	Subscribers
ESPN	65,000,000
Disney Channel	227,000,000
Disney junior	162,000,000
Disney xD	131,000,000
Fox	220,000,000
National geographic	316,000,000
Star	221,000,000

Figure 63- Source: Nova SBE Equity Research



Figure 64-Source: Nova SBE Equity Research

Valuation

This segment will be presenting a stable growth rate after 2026, so it was necessary to add years to our valuation (until 2029) when its growth rate stabilized in 6.3% (product between a 9% RONIC and 68% RR). The estimated enterprise value for this segment under this condition is \$4,226 million and it was conducted a sensitivity analysis to measure the impact on the growth rate of 1% error in RONIC and/or RR leading to an interval of [5.57%,7.12%]. Additionally, the same was done with the WACC and the growth rate leading to an Enterprise value between [-79,216;22,617] (in million USD).

Sensitivity analysis between RONIC and RR			
4.93%	8.29%	9.29%	10.29%
67.22%	5.57%	6.24%	6.91%
68.22%	5.65%	6.34%	7.02%
69.22%	5.74%	6.43%	7.12%

Sensitivity analysis with g and wacc			
\$ 4,226	5.57%	6.34%	7.12%
5.98%	\$ 22,617	\$ (49,243)	\$ (22,728)
6.98%	\$ (3,919)	\$ 4,226	\$ (79,216)
7.98%	\$ (8,429)	\$ (7,335)	\$ (4,244)

Figure 65- Source: Nova SBE Equity Research

Financials

Disney presented stable depreciation and amortization rates and we forecasted them to remain constant in the future applying a 5-year average for each segment. Goodwill increased by 156% in 2019 (figure 66), due to the 21CF's acquisition and its expected synergies in the Media, Studio and DTC segment, and we estimate that it will remain constant for the future. Since Disney is a mature company it is estimated that the investment in CAPEX, excluding the segment of Parks and Resorts that has a high level of capital expenditures' investment, will be in the same amount as the depreciation. Another caption estimated was the working capital which we forecast, using the last 5-year average of collection/payment period, except for operating cash which was estimated as 2% of revenues. As mentioned before, with the 21CF's acquisition, Disney issued \$37.5 billion of new debt. Consequently, debt levels increased by 125% (from \$20.9bn in 2018 to \$47bn on FY19) (figure 67). In the annual report, Disney released its repayment schedule for debt issued before 2019 until 2026 and having this information we retrieved the future debt's payment. We believe that until 2026 the company will not issue more debt and that the book value of Debt-to-equity ratio will reach 15% in the same year and, after that, the company will issue more debt to maintain the D/E ratio at the same level. When looking at current debt versus long term debt, we expect Disney to keep a 20% level of current debt, since this is the percentage implied in the average of current debt/total debt ratio for the last 5 years. After more than 10 years of constant rates, U.S Statutory tax rate has decreased in the past 2 years to 21%, due to a political action to reduce federal corporate tax rates. We expect both Statutory tax rate and tax adjustments to remain constant because respectively, these are long-term policies and highly unpredictable adjustments.

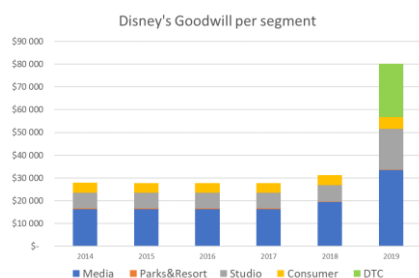


Figure 66- Source: Disney's Annual Report

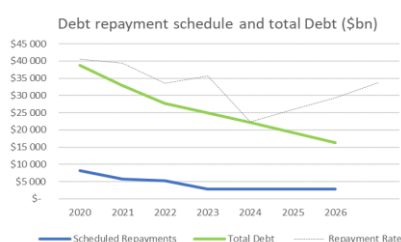


Figure 67-Source: Nova SBE Equity Research

Valuation Methodology:

In the present research, it was conducted a valuation analysis through the Discounted Cash Flow method which required us to estimate and forecast each



Figure 68-Source: Nova SBE Equity Research

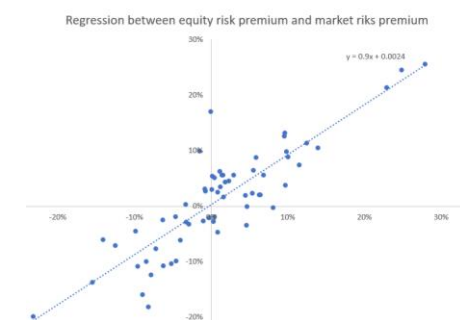


Figure 69-Source: Nova SBE Equity

caption included in the financial statements. Since Disney operates in different segments, it was necessary to segregate by segments since they present different compounded annual growth rates, invested capital, cost structure and other aspects that must be handled differently. In this line of sense, we separate the financial statements into Media Networks, Parks and Resorts, Studio entertainment, Direct-To-Consumer & International and Consumer products & Interactive media. To discount the cash flows it was estimated the weighted average cost of capital. Firstly, we computed the rolling beta by computing a regression between Disney's equity risk premium and the Market risk premium (SP500 index deducted by 10-year US T-bill). Our measurement period for this regression included 60 data points (five years of monthly returns) and we graphed the rolling beta to search for patterns in Disney stock risks (figure 68). The regression's estimation implied a beta equal to 0.90 with a 95% confidence interval between [0.767;1.033] and the proportion of the variance in the Disney's equity return that is predictable from the market risk premium (R square) is 75.31%. In order to incorporate the future D/E ratio, it was computed the unlevered beta (with the historical D/E 18%) and relevered again with the future capital structure of D/E equal to 20%. Since Disney's Beta is close to 1, one may conclude that the company's stock price will vary with the market (figure 69), but the price of the under-analysis firm is less volatile than the S&P index since it is lower than 1. Secondly, the cost of equity was estimated using CAPM ³⁹where it was used the yield of the 10-year US treasury bond as a proxy for the risk-free rate (1.8%)⁴⁰, an outsource value for the market risk premium (6.5%)⁴¹, reaching the final rate estimated for Disney's cost of equity of 7.97%. For estimating the cost of debt, it was used a weighted average yield on Disney's Bonds⁴² (2.15%) deducting from it the product between its probability of default and loss given default. For calculation purposes, it was used Bloomberg's estimation of a 40% recovery rate on Disney's Credit Default Swap (CDS), giving Disney a rate for the loss given default 3 of 60%. Using the same source, it was used a 5-year cumulative probability of default (0.5764%) on a Disney's CDS, resulting in a cost of debt very close to the risk-free rate of 1.802%. To estimate the market value D/E ratio it was computed the historical ratio (20%) using the 2019's book-value of debt as a proxy of market value (\$46,986) and the market value of equity (# outstanding shares*price per share) ⁴³ leading to a value of \$264,736. The 5-year average of Disney's D/E is 12% nonetheless since the company increased its levels of indebtedness it is estimated that it will remain on 20% for the next few years. We estimate that the company will be capable of maintaining higher

³⁹ $Re = Rf + \beta(Rm - Rf)$

⁴⁰ Bloomberg Terminal

⁴¹ <https://www.fairness-finance.com/fairness-finance/finance/sample/sp500/product/equityriskpremium.dhtml?jsessionId=25E3A16449B919187EE44B34A192B48F>

⁴² <https://www.macroaxis.com/invest/bond/DIS/254687AH9>

⁴³ # shares outstanding from annual report 2019: 1,802,398,289 and price per share from Bloomberg (22-12-2019): \$146.88

Media	\$	127,128
Parks&Resorts	\$	136,077
Studio	\$	63,307
Consumer Products	\$	29,636
DTC	\$	3,959
Corporate	\$	(10,088.41)
Enterprise Value (million)	\$	350,019
Debt (million)	\$	50,550
Non core assets/liabilities	\$	(7,124)
Equity value	\$	292,344.83
# Shares ((million)	\$	1,802.00
Price per share	\$	162.23
EPS	\$	6.62
Expected Capital gain		
Price target 2020	\$	162.23
Current share price	\$	146.88
Expected Capital gain		10.5%
Expected cash gain		
Dividend yield		1.44%
Expected cash gain		1%
Expected capital gain+ cash gain		11.9%
		BUY

Figure 70-Source: Nova SBE Equity Research

levels of debt since its peers have higher D/E ratios, namely FOX with 0.65, Comcast and Discovery with 1.33 and AT&T with 0.79. When computing the WACC using a D/E of 20%, the final value was 6.98%. When estimating the cash-flows⁴⁴ we split by business and through the report, it was mentioned in each segment the estimated Enterprise value via DCF and the total value obtained was 350,286 million USD that, when deducted the value of any Non-Core Assets and Liabilities, Net Debt and Non-controlling interests (treated like debt), it results in an equity value of \$292,612 million which is translated to 162.38\$ price per share. The final recommendation through the DCF model was based on the expected capital gain of 10.6% plus 1.44% from the dividend yield. The expected total return is more than 10% (12%) over a 12-month period leading to a buy recommendation (figure 70).

Multiples

To understand how the relative valuation for each segment compares with the DCF valuation it was conducted multiple analysis segregated by industry.

For the Media segment, it was selected companies that operate on cable and broadcasting segments in the United States, namely, Dish Network Corporation and World Wrestling entertainment. The multiple used was an average of those two companies and Disney's multiple leading to a 15x EV/EBITA. Having in mind Media's EBITDA from 2020 (\$7,916 million) it is estimated an Enterprise value of \$119,155 million. This value is lower than the one estimated through the DCF (\$127,129 million) and this can be explained by lower multiples of Disney Media segment's comparable-firms. For the parks segment comparable firms, it was selected Marriot International that operates globally, through Hotels and Resorts and Six flag entertainment that has amusement parks worldwide. The average of EV/EBITDA multiple, including Disney, is 16x which is translated in an Enterprise Value of \$125,511 (versus \$136,079 million estimated using the DCF method). For Studio entertainment it was selected 2 American companies Time Warner and Universal Studio and one Chinese company Alibaba Pictures group. The average comparable firms including Disney's multiple is 18x EV/EBITDA which leads to an Enterprise value of \$61,723 million for this segment, close to the one estimated with the DCF method (\$63,308 million). Lastly, it was used the same approach for consumer products and interactive media using Disney's, Nintendo's, Vivendi's, Hasbro's and Activision Blizzard's EV/EBITDA which was translated into 16x EV/EBITDA multiple. The Enterprise value estimated with multiples approach for this segment is \$29,719 million, close to \$29,639 million through DCF. For the DTC segment, it was not possible to conduct a multiple analysis since by 2020 its EBITDA is lower than zero, and it will lead to negative

Company	EV/EBITDA
Media	
Disney	18
Dish Network	14
World wrestling entertainment	14
Average Comparable Media	15
Disney EBITDA Media (in Mln)	\$ 7,916
EV Media (in Mln)	\$ 119,155
Parks and Resorts	
Disney	18
Six flags Entertainment corp	14
Marriot international inc	16
Average Comparable Parks	16
Disney EBITDA Park (in Mln)	\$ 7,872
EV Parks and resorts (in Mln)	\$ 125,511
Studio Entertainment	
Disney	18
Universal Studios Comcast Corp	8
Time warner	10
Alibaba pictures group	35
Average Comparable Studio	18
Disney EBITDA Studio (in Mln)	\$ 3,470
EV Studio Entertainment (in Mln)	\$ 61,732
Consumer Products and Interactive Media	
Disney	18
NINTENDO CO LTD	15
VIVENDI	15
Hasbro Inc.	14
Activision blizzard inc	17
Average Comparable Studio	16
Disney EBITDA Studio (in Mln)	\$ 1,901
EV Studio Entertainment (in Mln)	\$ 29,719
DTC DCF Enterprise Value	\$ 4,226
Corporate DCF Enterprise Value	\$ (10,088)
Disney Enterprise Value	\$ 330,254
Disney Market Capitalization	\$ 272,580
Price per share	\$ 151
HOLD	4.43%

Figure 71 Source: Nova SBE Equity Research

⁴⁴ Continuing value estimation: $CV = NOPLAT_6(1 - g/RONIC)/(WACC - g)$

enterprise value. Moreover, the year 2020 will not be able to reflect the value creation that this segment will have in the future. To overcome this difficulty, it was used the DTC's EV estimated through DCF. The same was done for the corporate segment and it was computed a total enterprise value of \$334,311 million and a market capitalization of \$276,636 million. The price will be \$154 per share and the expected total return is 5.96% (including expected capital gains of 4.52% and dividend yield of 1.44%) and the final recommendation will be Hold.

Appendix: Financial Statements

1- Income Statement

	2019	2020*	2021*	2022*	2023*	2024*	2025*	2026*
Media Networks								
Revenues	\$ 24,827	\$ 25,673	\$ 26,620	\$ 27,813	\$ 28,950	\$ 29,802	\$ 30,470	\$ 31,080
Cable	\$ 16,486	\$ 17,111	\$ 17,739	\$ 18,408	\$ 19,109	\$ 19,843	\$ 20,220	\$ 20,640
Broadcasting	\$ 8,341	\$ 8,563	\$ 8,880	\$ 9,405	\$ 9,842	\$ 9,959	\$ 10,250	\$ 10,439
Operating expenses	\$ (15,499)	\$ (15,918)	\$ (16,504)	\$ (17,244)	\$ (17,949)	\$ (18,477)	\$ (18,891)	\$ (19,269)
Depreciation	\$ (291)	\$ (224)	\$ (224)	\$ (224)	\$ (224)	\$ (224)	\$ (224)	\$ (224)
Amortization	\$ -	\$ (39)	\$ (4)	\$ (4)	\$ (5)	\$ (5)	\$ (5)	\$ (5)
Selling, general and administrative Expenses	\$ (2,361)	\$ (2,567)	\$ (2,662)	\$ (2,781)	\$ (2,895)	\$ (2,980)	\$ (3,047)	\$ (3,108)
Equity in income (loss) of investees	\$ 703	\$ 727	\$ 754	\$ 788	\$ 820	\$ 844	\$ 863	\$ 880
Amortization of 21 CF Intangible assets related to equity investees	\$ (15)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EBIT Media Networks	\$ 7,364	\$ 7,653	\$ 7,979	\$ 8,347	\$ 8,697	\$ 8,959	\$ 9,165	\$ 9,353
EBIT % Margin	30%	30%	30%	30%	30%	30%	30%	30%
Taxes	\$ 1,902	\$ 1,518	\$ 1,583	\$ 1,656	\$ 1,725	\$ 1,777	\$ 1,818	\$ 1,856
Core Result Media Networks	\$ 5,462	\$ 6,134	\$ 6,396	\$ 6,691	\$ 6,971	\$ 7,182	\$ 7,347	\$ 7,497
Parks and Resorts								
Revenues	\$ 21,592	\$ 24,601	\$ 23,591	\$ 25,005	\$ 27,948	\$ 28,786	\$ 29,537	\$ 30,281
Domestic	\$ 17,369	\$ 20,182	\$ 19,045	\$ 20,066	\$ 22,910	\$ 23,492	\$ 24,085	\$ 24,687
International	\$ 4,223	\$ 4,419	\$ 4,546	\$ 4,939	\$ 5,038	\$ 5,294	\$ 5,452	\$ 5,594
Operating expenses	\$ (12,003)	\$ (13,777)	\$ (13,211)	\$ (14,003)	\$ (15,651)	\$ (16,120)	\$ (16,541)	\$ (16,957)
Depreciation	\$ (1,883)	\$ (2,150)	\$ (2,244)	\$ (2,392)	\$ (2,630)	\$ (2,674)	\$ (2,763)	\$ (2,704)
Amortization	\$ (4)	\$ (4)	\$ (4)	\$ (4)	\$ (5)	\$ (5)	\$ (5)	\$ (5)
Selling, general and administrative Expenses	\$ (2,683)	\$ (2,952)	\$ (2,831)	\$ (3,001)	\$ (3,354)	\$ (3,454)	\$ (3,544)	\$ (3,634)
Equity in income (loss) of investees	\$ (13)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EBIT Parks and Resorts	\$ 5,006	\$ 5,718	\$ 5,301	\$ 5,606	\$ 6,308	\$ 6,533	\$ 6,684	\$ 6,981
EBIT % Margin	23%	23%	22%	22%	23%	23%	23%	23%
Taxes	\$ 1,293	\$ 1,135	\$ 1,052	\$ 1,112	\$ 1,252	\$ 1,296	\$ 1,326	\$ 1,385
Core Results Parks and Resorts	\$ 3,713	\$ 4,584	\$ 4,249	\$ 4,493	\$ 5,057	\$ 5,237	\$ 5,358	\$ 5,596
Studio Entertainment								
Revenues	\$ 11,127	\$ 12,420	\$ 12,673	\$ 13,026	\$ 13,412	\$ 14,066	\$ 14,747	\$ 15,209
Operating expenses	\$ (5,187)	\$ (5,392)	\$ (5,502)	\$ (5,655)	\$ (5,823)	\$ (6,107)	\$ (6,402)	\$ (6,603)
Depreciation	\$ (74)	\$ (62)	\$ (62)	\$ (62)	\$ (62)	\$ (62)	\$ (62)	\$ (62)
Amortization	\$ (61)	\$ (50)	\$ (51)	\$ (52)	\$ (54)	\$ (56)	\$ (59)	\$ (61)
Selling, general and administrative Expenses	\$ (3,119)	\$ (3,558)	\$ (3,630)	\$ (3,732)	\$ (3,842)	\$ (4,030)	\$ (4,224)	\$ (4,357)
Equity in income (loss) of investees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EBIT Studio Entertainment	\$ 2,686	\$ 3,358	\$ 3,428	\$ 3,525	\$ 3,631	\$ 3,811	\$ 3,999	\$ 4,126
EBIT % Margin	24%	27%	27%	27%	27%	27%	27%	27%
Taxes	\$ 694	\$ 666	\$ 680	\$ 699	\$ 720	\$ 756	\$ 793	\$ 819
Core Results Studio Entertainment	\$ 1,992	\$ 2,692	\$ 2,748	\$ 2,826	\$ 2,911	\$ 3,055	\$ 3,205	\$ 3,307
Consumer Products and Interactive Media								
Revenues	\$ 4,633	\$ 4,778	\$ 4,914	\$ 5,056	\$ 5,203	\$ 5,357	\$ 5,517	\$ 5,685
Operating expenses	\$ (2,012)	\$ (1,959)	\$ (2,138)	\$ (2,125)	\$ (2,081)	\$ (2,143)	\$ (2,243)	\$ (2,331)
Depreciation	\$ (215)	\$ (46)	\$ (46)	\$ (46)	\$ (46)	\$ (46)	\$ (46)	\$ (46)
Amortization	\$ (104)	\$ (108)	\$ (111)	\$ (116)	\$ (118)	\$ (122)	\$ (125)	\$ (129)
Selling, general and administrative Expenses	\$ (450)	\$ (918)	\$ (944)	\$ (972)	\$ (1,000)	\$ (1,029)	\$ (1,060)	\$ (1,092)
Equity in income (loss) of investees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EBIT Consumer Products and Interactive Media	\$ 1,852	\$ 1,747	\$ 1,675	\$ 1,797	\$ 1,958	\$ 2,017	\$ 2,043	\$ 2,087
EBIT % Margin	40%	37%	34%	36%	38%	38%	37%	37%
Taxes	\$ 478	\$ 347	\$ 332	\$ 356	\$ 389	\$ 400	\$ 405	\$ 414
Core Consumer Products and Interactive Media	\$ 1,374	\$ 1,400	\$ 1,343	\$ 1,440	\$ 1,570	\$ 1,617	\$ 1,638	\$ 1,673
DTC International								
Revenues	\$ 9,349	\$ 11,329	\$ 12,507	\$ 14,234	\$ 16,317	\$ 20,470	\$ 23,446	\$ 27,033
Operating expenses	\$ (8,497)	\$ (10,192)	\$ (10,684)	\$ (11,445)	\$ (12,160)	\$ (14,694)	\$ (16,911)	\$ (19,569)
Depreciation	\$ (207)	\$ (238)	\$ (274)	\$ (315)	\$ (362)	\$ (416)	\$ (479)	\$ (551)
Amortization	\$ (111)	\$ (113)	\$ (125)	\$ (142)	\$ (163)	\$ (205)	\$ (234)	\$ (270)
Selling, general and administrative Expenses	\$ (2,108)	\$ (2,603)	\$ (2,896)	\$ (3,315)	\$ (3,831)	\$ (4,094)	\$ (4,689)	\$ (5,407)
Equity in income (loss) of investees	\$ (240)	\$ (227)	\$ (250)	\$ (285)	\$ (326)	\$ (409)	\$ (469)	\$ (541)
EBIT DTC International	\$ (1,814)	\$ (2,044)	\$ (1,722)	\$ (1,267)	\$ (526)	\$ 652	\$ 664	\$ 696
EBIT % Margin	-19%	-18%	-14%	-9%	-3%	3%	3%	3%
Taxes	\$ (468)	\$ (406)	\$ (342)	\$ (251)	\$ (104)	\$ 129	\$ 132	\$ 138
Core DTC International	\$ (1,346)	\$ (1,639)	\$ (1,380)	\$ (1,016)	\$ (421)	\$ 523	\$ 532	\$ 558
Corporate								
Elimination	\$ (1,958)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other cost of products	\$ 1,180	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate depreciation	\$ (167)	\$ (228)	\$ (228)	\$ (228)	\$ (228)	\$ (228)	\$ (228)	\$ (228)
TFCF and Hulu amortization	\$ (1,043)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Selling, general and administrative Expenses	\$ (820)	\$ (640)	\$ (652)	\$ (691)	\$ (745)	\$ (799)	\$ (842)	\$ (887)
Impairment of equity investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in income/loss of investee vice gains	\$ (538)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate result before income taxes	\$ (3,346)	\$ (868)	\$ (880)	\$ (919)	\$ (974)	\$ (1,028)	\$ (1,070)	\$ (1,115)
Corporate Taxes	\$ (864)	\$ (172)	\$ (175)	\$ (182)	\$ (193)	\$ (204)	\$ (212)	\$ (221)
Corporate result	\$ (2,482)	\$ (696)	\$ (705)	\$ (737)	\$ (780)	\$ (824)	\$ (858)	\$ (894)
Non-core								
Restructuring and impairment charges	\$ (1,183)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	\$ 4,357	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market value adjustments for investments	\$ (2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Market value adjustments for hedges	\$ (35)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pension and postretirement medical plan adjustments	\$ (2,446)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign currency translation and other	\$ (396)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
income/loss discontinued operations	\$ 671.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-core result before income taxes	\$ 966	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-core Taxes	\$ 203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-core result	\$ 763	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Financial								
Interest expense	\$ (978)	\$ (698)	\$ (594)	\$ (500)	\$ (450)	\$ (409)	\$ (368)	\$ (326)
Tax	\$ (205)	\$ (147)	\$ (125)	\$ (105)	\$ (95)	\$ (86)	\$ (77)	\$ (68)
Financial result	\$ (773)	\$ (552)	\$ (469)	\$ (395)	\$ (356)	\$ (323)	\$ (290)	\$ (258)

2- Balance Sheet

	2019	2020*	2021*	2022*	2023*	2024*	2025*	2026*
Media Networks								
Operating cash	\$ 344	\$ 315	\$ 321	\$ 341	\$ 367	\$ 394	\$ 415	\$ 437
Receivables	\$ 4,200	\$ 4,103	\$ 4,204	\$ 4,393	\$ 4,572	\$ 4,707	\$ 4,812	\$ 4,908
Inventories	\$ 165	\$ 164	\$ 168	\$ 176	\$ 183	\$ 188	\$ 192	\$ 196
Television costs and advances (current portion)	\$ 3,052	\$ 4,255	\$ 4,503	\$ 4,781	\$ 4,899	\$ 4,985	\$ 5,072	\$ 4,883
Other current assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Film and television costs (non current portion)	\$ 8,801	\$ 7,215	\$ 7,480	\$ 7,765	\$ 7,946	\$ 8,107	\$ 8,272	\$ 8,255
Equity methods investments	\$ 2,018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, resorts and other properties	\$ 1,478	\$ 1,478	\$ 1,478	\$ 1,478	\$ 1,478	\$ 1,478	\$ 1,478	\$ 1,478
Intangible assets, net	\$ 7,861	\$ 7,702	\$ 7,986	\$ 8,344	\$ 8,685	\$ 8,940	\$ 9,141	\$ 9,324
Goodwill	\$ 33,423	\$ 33,423	\$ 33,423	\$ 33,423	\$ 33,423	\$ 33,423	\$ 33,423	\$ 33,423
Other non current assets	\$ 1,600	\$ 1,200	\$ 1,244	\$ 1,300	\$ 1,353	\$ 1,392	\$ 1,424	\$ 1,452
Accounts payable	\$ 4,557	\$ 3,190	\$ 3,308	\$ 3,456	\$ 3,597	\$ 3,703	\$ 3,786	\$ 3,862
Deferred revenue	\$ 1,685	\$ 1,915	\$ 1,986	\$ 2,075	\$ 2,159	\$ 2,223	\$ 2,273	\$ 2,318
Total Invested Capital Media Networks	\$ 56,700	\$ 54,748	\$ 55,513	\$ 56,468	\$ 57,149	\$ 57,688	\$ 58,170	\$ 58,177
Parks and resorts								
operating cash	\$ 264	\$ 693	\$ 707	\$ 749	\$ 808	\$ 867	\$ 913	\$ 962
Receivables	\$ 2,500	\$ 3,205	\$ 3,073	\$ 3,257	\$ 3,641	\$ 3,750	\$ 3,848	\$ 3,945
Inventories	\$ 577	\$ 722	\$ 692	\$ 733	\$ 820	\$ 844	\$ 866	\$ 888
Other current assets	\$ -	\$ 483	\$ 463	\$ 491	\$ 549	\$ 565	\$ 580	\$ 595
Equity methods investments	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, resorts and other properties	\$ 27,746	\$ 28,064	\$ 29,297	\$ 31,223	\$ 34,335	\$ 34,905	\$ 36,064	\$ 35,302
Intangible assets, net	\$ 100	\$ 123	\$ 118	\$ 125	\$ 140	\$ 144	\$ 148	\$ 151
Goodwill	\$ 291	\$ 291	\$ 291	\$ 291	\$ 291	\$ 291	\$ 291	\$ 291
Other non current assets	\$ -	\$ 197	\$ 189	\$ 200	\$ 224	\$ 230	\$ 236	\$ 242
Accounts payable	\$ 3,963	\$ 3,057	\$ 2,931	\$ 3,107	\$ 3,473	\$ 3,577	\$ 3,670	\$ 3,763
Deferred revenue	\$ 1,466	\$ 1,835	\$ 1,760	\$ 1,865	\$ 2,085	\$ 2,147	\$ 2,203	\$ 2,259
Total Invested Capital in Parks and Resorts	\$ 26,053	\$ 28,886	\$ 30,139	\$ 32,098	\$ 35,249	\$ 35,872	\$ 37,073	\$ 36,354
Studio Entertainment								
Operating cash	\$ 189	\$ 158	\$ 161	\$ 170	\$ 184	\$ 197	\$ 207	\$ 219
Receivables	\$ 2,867	\$ 2,168	\$ 2,212	\$ 2,274	\$ 2,341	\$ 2,455	\$ 2,574	\$ 2,655
Inventories	\$ 330	\$ 426	\$ 434	\$ 446	\$ 460	\$ 482	\$ 505	\$ 521
Other current assets	\$ 305	\$ 198	\$ 202	\$ 208	\$ 214	\$ 225	\$ 235	\$ 243
Film and television costs: Theatrical film costs	\$ 9,554	\$ 10,331	\$ 9,680	\$ 10,191	\$ 10,285	\$ 10,901	\$ 11,235	\$ 11,178
Equity methods investments	\$ 8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, resorts and other properties	\$ 597	\$ 597	\$ 597	\$ 597	\$ 597	\$ 597	\$ 597	\$ 597
Intangible assets	\$ 2,085	\$ 2,484	\$ 2,535	\$ 2,605	\$ 2,682	\$ 2,813	\$ 2,949	\$ 3,042
Goodwill	\$ 17,797	\$ 17,797	\$ 17,797	\$ 17,797	\$ 17,797	\$ 17,797	\$ 17,797	\$ 17,797
Other non current assets	\$ 218	\$ 351	\$ 358	\$ 368	\$ 379	\$ 398	\$ 417	\$ 430
Accounts payable and other accrued liabilities	\$ 2,042	\$ 1,543	\$ 1,575	\$ 1,619	\$ 1,667	\$ 1,748	\$ 1,832	\$ 1,890
Deferred revenue	\$ 755	\$ 926	\$ 945	\$ 972	\$ 1,000	\$ 1,049	\$ 1,100	\$ 1,134
Total Invested Capital in Studio Entertainments	\$ 31,153	\$ 32,040	\$ 31,456	\$ 32,067	\$ 32,272	\$ 33,068	\$ 33,585	\$ 33,657
Consumer products & Interactive Media								
Operating cash	\$ 206.48	\$ 237.34	\$ 241.87	\$ 256.42	\$ 276.59	\$ 296.62	\$ 312.39	\$ 329.17
Receivables	\$ 631.00	\$ 235.09	\$ 241.78	\$ 248.74	\$ 256.00	\$ 263.57	\$ 271.46	\$ 279.69
Inventories	\$ 494.70	\$ 245.65	\$ 252.64	\$ 259.92	\$ 267.51	\$ 275.41	\$ 283.66	\$ 292.26
Other current assets	\$ -	\$ 182.48	\$ 186.20	\$ 191.39	\$ 197.06	\$ 206.67	\$ 216.67	\$ 223.45
Equity methods investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, resorts and other properties	\$ 55.76	\$ 55.76	\$ 55.76	\$ 55.76	\$ 55.76	\$ 55.76	\$ 55.76	\$ 55.76
Intangible assets	\$ 3,022.00	\$ 3,022.00	\$ 3,058.44	\$ 3,145.47	\$ 3,286.25	\$ 3,330.56	\$ 3,429.01	\$ 3,531.66
Goodwill	\$ 5,244.00	\$ 5,244.00	\$ 5,244.00	\$ 5,244.00	\$ 5,244.00	\$ 5,244.00	\$ 5,244.00	\$ 5,244.00
Other noncurrent assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and other accrued liabilities	\$ 850.32	\$ 467.51	\$ 480.81	\$ 494.67	\$ 509.10	\$ 524.15	\$ 539.84	\$ 556.21
Deferred revenue	\$ 314.46	\$ 210.70	\$ 216.70	\$ 222.94	\$ 229.45	\$ 236.23	\$ 243.30	\$ 250.68
Total Invested Capital in Consumer Products and Interactive media	\$ 8,489	\$ 8,544	\$ 8,583	\$ 8,684	\$ 8,845	\$ 8,912	\$ 9,030	\$ 9,093
DTC								
operating cash	\$ 427	\$ 470	\$ 479	\$ 508	\$ 548	\$ 587	\$ 619	\$ 652
Receivables	\$ 4,383	\$ 1,862	\$ 2,056	\$ 2,340	\$ 2,682	\$ 3,365	\$ 3,854	\$ 4,444
Inventories	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Television costs and advances (current portion)	\$ 1,545	\$ 1,548	\$ 1,638	\$ 1,739	\$ 1,782	\$ 1,814	\$ 1,846	\$ 1,777
Other current assets	\$ 674	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Film and television costs (non current portion)	\$ 4,455	\$ 4,241.57	\$ 4,277.73	\$ 4,410.71	\$ 4,593.99	\$ 4,808.81	\$ 4,891.69	\$ 4,955.95
Equity methods investments	\$ 821	\$ 888	\$ 973	\$ 1,066	\$ 1,167	\$ 1,278	\$ 1,400	\$ 1,533
Parks, resorts and other properties	\$ 52	\$ 68	\$ 75	\$ 85	\$ 98	\$ 123	\$ 141	\$ 162
Intangible assets	\$ 9,962	\$ 11,329	\$ 12,507	\$ 14,234	\$ 16,317	\$ 20,470	\$ 23,446	\$ 27,033
Goodwill	\$ 23,538	\$ 23,538	\$ 23,538	\$ 23,538	\$ 23,538	\$ 23,538	\$ 23,538	\$ 23,538
Other noncurrent assets	\$ 2,034	\$ 1,020	\$ 1,126	\$ 1,281	\$ 1,469	\$ 1,842	\$ 2,110	\$ 2,433
Accounts payable and other accrued liabilities	\$ 1,357	\$ 1,552	\$ 1,713	\$ 1,950	\$ 2,235	\$ 2,804	\$ 3,212	\$ 3,703
Deferred revenue	\$ 502	\$ 621	\$ 685	\$ 780	\$ 894	\$ 1,122	\$ 1,285	\$ 1,481
Total Invested Capital in DTC	\$ 46,033	\$ 42,792	\$ 44,405	\$ 46,655	\$ 49,173	\$ 53,888	\$ 57,348	\$ 61,243
Corporate								
Deferred income taxes (current assets)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Inventories	\$ 82	\$ 73	\$ 73	\$ 73	\$ 73	\$ 73	\$ 73	\$ 73
Receivables	\$ 900	\$ 1,245	\$ 1,268	\$ 1,345	\$ 1,450	\$ 1,555	\$ 1,638	\$ 1,726
Other non current assets	\$ 863	\$ 1,692	\$ 1,724	\$ 1,828	\$ 1,972	\$ 2,115	\$ 2,227	\$ 2,347
Equity method investments	\$ 72	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, resorts and other properties	\$ 1,674	\$ 1,630	\$ 1,630	\$ 1,630	\$ 1,630	\$ 1,630	\$ 1,630	\$ 1,630
amortized intangible assets	\$ 185	\$ 185	\$ 185	\$ 185	\$ 185	\$ 185	\$ 185	\$ 185
Unallocated goodwill	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and other accrued liabilities	\$ 5,173	\$ 3,935	\$ 4,010	\$ 4,251	\$ 4,586	\$ 4,918	\$ 5,179	\$ 5,457
Deferred income taxes (non current liabilities)	\$ 7,902	\$ 6,190	\$ 6,308	\$ 6,688	\$ 7,214	\$ 7,736	\$ 8,148	\$ 8,585
Total Invested Capital Corporate	\$ (9,299)	\$ (5,271)	\$ (5,438)	\$ (5,879)	\$ (6,490)	\$ (7,096)	\$ (7,574)	\$ (8,082)
Total invested capital in Core	\$ 159,129	\$ 161,739	\$ 164,658	\$ 170,094	\$ 176,198	\$ 182,332	\$ 187,631	\$ 190,442
Non-core								
Other investments	\$ 302	\$ 258	\$ 263	\$ 278	\$ 300	\$ 322	\$ 339	\$ 358
Assets held for sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-current assets held for sale- discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other long term liabilities (non current)	\$ 13,580	\$ 7,382	\$ 7,863	\$ 10,327	\$ 11,243	\$ 13,191	\$ 14,736	\$ 15,806
Noncurrent Liabilities held for sale-discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Invested Capital Non-core	\$ (13,278)	\$ (7,124)	\$ (7,600)	\$ (10,048)	\$ (10,943)	\$ (12,869)	\$ (14,397)	\$ (15,448)
Financial								
Debt &Equivalents								
Excess cash	\$ 3,987	\$ 4,370	\$ 4,454	\$ 4,721	\$ 5,093	\$ 5,462	\$ 5,752	\$ 6,061
Current portion of borrowings	\$ 8,857	\$ 7,791	\$ 6,628	\$ 5,579	\$ 5,027	\$ 4,564	\$ 4,101	\$ 3,638
Borrowings	\$ 38,129	\$ 30,957	\$ 26,337	\$ 22,169	\$ 19,975	\$ 18,135	\$ 16,296	\$ 14,456
Liabilities held for sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Noncontrolling interest	\$ 5,012	\$ 4,269	\$ 4,352	\$ -	\$ -	\$ -	\$ -	\$ -
Redeemable noncontrolling interests	\$ 8,963	\$ 7,533	\$ 6,103	\$ 4,673	\$ 3,243	\$ 1,813	\$ -	\$ -
Total Debt & Equivalents	\$ (56,974)	\$ (46,180)	\$ (38,967)	\$ (27,700)	\$ (23,152)	\$ (19,051)	\$ (14,645)	\$ (12,034)
Total Equity	\$ 88,877	\$ 108,435	\$ 118,091	\$ 132,346	\$ 142,103	\$ 150,412	\$ 158,589	\$ 163,016

3- Cash Flow Map

	2019	2020	2021	2022	2023	2024	2025	2026
Media networks								
EBIT	\$ 7,364	\$ 7,653	\$ 7,979	\$ 8,347	\$ 8,697	\$ 8,959	\$ 9,165	\$ 9,353
taxes	\$ 1,902	\$ 1,518	\$ 1,583	\$ 1,656	\$ 1,725	\$ 1,777	\$ 1,818	\$ 1,856
NOPLAT	\$ 5,462	\$ 6,134	\$ 6,396	\$ 6,691	\$ 6,971	\$ 7,182	\$ 7,347	\$ 7,497
+ Depreciation	\$ 291	\$ 224	\$ 224	\$ 224	\$ 224	\$ 224	\$ 224	\$ 224
+ Amortization	\$ -	\$ 39	\$ 4	\$ 4	\$ 5	\$ 5	\$ 5	\$ 5
- Capex	\$ 175	\$ 224	\$ 224	\$ 224	\$ 224	\$ 224	\$ 224	\$ 224
- Δ Goodwill	\$ 14,035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Δ Intangible assets	\$ 5,832	\$ (120)	\$ 288	\$ 362	\$ 346	\$ 260	\$ 206	\$ 188
- Δ Working capital	\$ 244	\$ 2,212	\$ 172	\$ 256	\$ 106	\$ 83	\$ 85	\$ (188)
- Δ Other non current assets	\$ 5,736	\$ (4,005)	\$ 309	\$ 341	\$ 234	\$ 201	\$ 196	\$ 12
Media Networks FCF	\$ (20,268)	\$ 8,086	\$ 5,631	\$ 5,736	\$ 6,290	\$ 6,642	\$ 6,865	\$ 7,491
Parks and Resorts								
EBIT	\$ 5,006	\$ 5,718	\$ 5,301	\$ 5,606	\$ 6,308	\$ 6,533	\$ 6,684	\$ 6,981
taxes	\$ 1,293	\$ 1,135	\$ 1,052	\$ 1,112	\$ 1,252	\$ 1,296	\$ 1,326	\$ 1,385
NOPLAT	\$ 3,713	\$ 4,584	\$ 4,249	\$ 4,493	\$ 5,057	\$ 5,237	\$ 5,358	\$ 5,596
+ Depreciation	\$ 1,883	\$ 2,150	\$ 2,244	\$ 2,392	\$ 2,630	\$ 2,674	\$ 2,763	\$ 2,704
+ Amortization	\$ 4	\$ 4	\$ 4	\$ 4	\$ 5	\$ 5	\$ 5	\$ 5
- Capex	\$ 4,146	\$ 2,467	\$ 3,478	\$ 4,318	\$ 5,742	\$ 3,244	\$ 3,922	\$ 1,942
- Δ Goodwill	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Δ Intangible assets	\$ 7	\$ 27	\$ (1)	\$ 11	\$ 20	\$ 9	\$ 9	\$ 9
- Δ Working capital	\$ (2,464)	\$ 2,299	\$ 33	\$ 15	\$ 1	\$ 42	\$ 31	\$ 34
- Δ Other non current assets	\$ 2	\$ 194	\$ (8)	\$ 11	\$ 24	\$ 7	\$ 6	\$ 6
Parks and resorts FCF	\$ 3,908	\$ 1,750	\$ 2,996	\$ 2,535	\$ 1,906	\$ 4,614	\$ 4,157	\$ 6,314
Studio entertainment								
EBIT	\$ 2,686	\$ 3,358	\$ 3,428	\$ 3,525	\$ 3,631	\$ 3,811	\$ 3,999	\$ 4,126
taxes	\$ 694	\$ 666	\$ 680	\$ 699	\$ 720	\$ 756	\$ 793	\$ 819
NOPLAT	\$ 1,992	\$ 2,692	\$ 2,748	\$ 2,826	\$ 2,911	\$ 3,055	\$ 3,205	\$ 3,307
+ Depreciation	\$ 74	\$ 62	\$ 62	\$ 62	\$ 62	\$ 62	\$ 62	\$ 62
+ Amortization	\$ 61	\$ 50	\$ 51	\$ 52	\$ 54	\$ 56	\$ 59	\$ 61
- Capex	\$ 88	\$ 62	\$ 62	\$ 62	\$ 62	\$ 62	\$ 62	\$ 62
- Δ Goodwill	\$ 10,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Δ Intangible assets	\$ 666	\$ 449	\$ 101	\$ 123	\$ 131	\$ 187	\$ 195	\$ 153
- Δ Working capital	\$ 759	\$ (414)	\$ 10	\$ 19	\$ 23	\$ 30	\$ 28	\$ 23
- Δ Other non current assets	\$ 4,024	\$ 902	\$ (644)	\$ 521	\$ 105	\$ 635	\$ 353	\$ (43)
Studios Entertainment FCF	\$ (14,044)	\$ 1,804	\$ 3,332	\$ 2,215	\$ 2,706	\$ 2,259	\$ 2,688	\$ 3,235
Consumer products & IM								
EBIT	\$ 1,852	\$ 1,747	\$ 1,675	\$ 1,797	\$ 1,958	\$ 2,017	\$ 2,043	\$ 2,087
taxes	\$ 478	\$ 347	\$ 332	\$ 356	\$ 389	\$ 400	\$ 405	\$ 414
NOPLAT	\$ 1,374	\$ 1,400	\$ 1,343	\$ 1,440	\$ 1,570	\$ 1,617	\$ 1,638	\$ 1,673
+ Depreciation	\$ 215	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46
+ Amortization	\$ 104	\$ 108	\$ 111	\$ 116	\$ 118	\$ 122	\$ 125	\$ 129
- Capex	\$ 20	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46	\$ 46
- Δ Goodwill	\$ 818	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Δ Intangible assets	\$ 50	\$ 108	\$ 148	\$ 203	\$ 259	\$ 166	\$ 224	\$ 232
- Δ Working capital	\$ 187	\$ 55	\$ 3	\$ 14	\$ 20	\$ 23	\$ 19	\$ 17
- Δ Other non current assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer products & IM FCF	\$ 619	\$ 1,345	\$ 1,303	\$ 1,339	\$ 1,409	\$ 1,550	\$ 1,520	\$ 1,553
DTC								
EBIT	\$ (1,814)	\$ (2,044)	\$ (1,722)	\$ (1,267)	\$ (526)	\$ 652	\$ 664	\$ 696
taxes	\$ (468)	\$ (406)	\$ (342)	\$ (251)	\$ (104)	\$ 129	\$ 132	\$ 138
NOPLAT	\$ (1,346)	\$ (1,639)	\$ (1,380)	\$ (1,016)	\$ (421)	\$ 523	\$ 532	\$ 558
+ Depreciation	\$ 207	\$ 238	\$ 274	\$ 315	\$ 362	\$ 416	\$ 479	\$ 551
+ Amortization	\$ 111	\$ 113	\$ 125	\$ 142	\$ 163	\$ 205	\$ 234	\$ 270
- Capex	\$ 259	\$ 246	\$ 283	\$ 325	\$ 374	\$ 430	\$ 495	\$ 569
- Δ Goodwill	\$ 23,538	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Δ Intangible assets	\$ 10,073	\$ 1,480	\$ 1,304	\$ 1,869	\$ 2,246	\$ 4,358	\$ 3,210	\$ 3,858
- Δ Working capital	\$ 5,170	\$ (3,462)	\$ 67	\$ 82	\$ 26	\$ (42)	\$ (18)	\$ (134)
- Δ Other non current assets	\$ 7,310	\$ (1,161)	\$ 360	\$ 431	\$ 397	\$ 579	\$ 485	\$ 419
DTC FCF	\$ (47,378)	\$ 1,610	\$ (2,995)	\$ (3,267)	\$ (2,939)	\$ (4,181)	\$ (2,926)	\$ (3,333)
Corporate								
EBIT	\$ (3,346)	\$ (868)	\$ (880)	\$ (919)	\$ (974)	\$ (1,028)	\$ (1,070)	\$ (1,115)
taxes	\$ (864)	\$ (172)	\$ (175)	\$ (182)	\$ (193)	\$ (204)	\$ (212)	\$ (221)
NOPLAT	\$ (2,482)	\$ (696)	\$ (705)	\$ (737)	\$ (780)	\$ (824)	\$ (858)	\$ (894)
+ impairment of equity investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
+ Depreciation	\$ 167	\$ 228	\$ 228	\$ 228	\$ 228	\$ 228	\$ 228	\$ 228
+ restructuring and impairment charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Capex	\$ 211	\$ 184	\$ 228	\$ 228	\$ 228	\$ 228	\$ 228	\$ 228
- Δ Goodwill	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- Δ Working capital	\$ (2,218)	\$ 1,573	\$ (51)	\$ (165)	\$ (229)	\$ (227)	\$ (179)	\$ (190)
- Δ Other non current assets	\$ (646)	\$ 787	\$ 3	\$ 104	\$ 144	\$ 143	\$ 112	\$ 120
+ Δ Deferred income taxes	\$ 4,793	\$ (1,712)	\$ 118	\$ 379	\$ 526	\$ 522	\$ 411	\$ 438
DTC FCF	\$ 5,076	\$ (4,724)	\$ (539)	\$ (296)	\$ (169)	\$ (217)	\$ (380)	\$ (386)
Non core								
EBIT	\$ 966	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
taxes	\$ 203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NOPLAT	\$ 763	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Δ other investments	\$ 171	\$ (44)	\$ 5	\$ 16	\$ 22	\$ 22	\$ 17	\$ 18
Δ assets held for sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Δ non current assets held for sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Δ other long term liabilities	\$ 6,990	\$ (6,198)	\$ 481	\$ 2,464	\$ 916	\$ 1,948	\$ 1,545	\$ 1,069
Δ Noncurrent Liabilities held for sale-discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non core FCF	\$ 7,582	\$ (6,154)	\$ 476	\$ 2,448	\$ 895	\$ 1,926	\$ 1,528	\$ 1,051
Total unlevered FCF	\$ (64,505)	\$ 3,717	\$ 10,204	\$ 10,710	\$ 10,098	\$ 12,593	\$ 13,453	\$ 15,925
Cash flows from financing								
- Interest	\$ (978)	\$ (698)	\$ (594)	\$ (500)	\$ (450)	\$ (409)	\$ (368)	\$ (326)
+ Income tax shield	\$ 205	\$ 147	\$ 125	\$ 105	\$ 95	\$ 86	\$ 77	\$ 68
+ Change in current and non current debt, net	\$ 25,086	\$ (8,621)	\$ (5,866)	\$ (5,485)	\$ (3,117)	\$ (2,671)	\$ (2,593)	\$ (2,611)
+ Change in Shareowners Funds (in cash)	\$ 31,399	\$ 7,633	\$ (2,524)	\$ 952	\$ (5,194)	\$ (8,158)	\$ (8,754)	\$ (13,053)
Δ Liabilities held for sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Δ Noncontrolling interest	\$ 953	\$ (743)	\$ 83	\$ (4,352)	\$ -	\$ -	\$ -	\$ -
Δ Redeemable noncontrolling interests	\$ 7,840	\$ (1,436)	\$ (1,429)	\$ (1,431)	\$ (1,433)	\$ (1,441)	\$ (1,815)	\$ (3)
Cash flows from financing	\$ 64,505	\$ (3,717)	\$ (10,204)	\$ (10,710)	\$ (10,098)	\$ (12,593)	\$ (13,453)	\$ (15,925)

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

DTC segment and the war of
streaming platforms

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Abstract

With television viewers migrating to streaming platforms, Disney betted on a new direct-to-consumer segment that includes: ESPN+, Hulu, Hotstar and Disney+ (a streaming service released during FY2020). This new segment is expected to have a significant impact on a long-term perspective since Disney already has its content and can take advantage of synergies generated by the 21st Century Fox merger. In this report, it is presented a scenario analysis of this market competitors and the impact on the company Direct-To-Consumer (DTC) segment valuation, considering the impact on Disney's share price.

Keywords

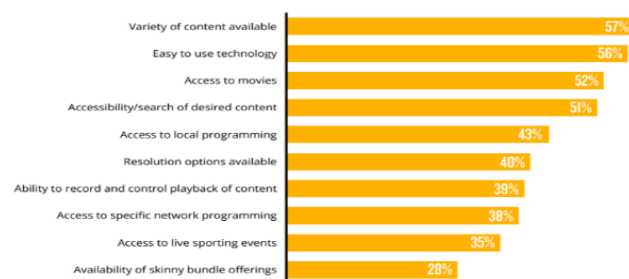
ROIOC- Return on Investment in original content
Discounted cash flow
Streaming services
DTC

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Content and the trend of subscribing more than one streaming platform

To have a successful OTT¹ platform, companies often need scale and a large library to appeal to mass audiences. This requires continuous investment in content and a constant measure of how it is performing in order to make decisions on its library. According to Nielsen's report², 57% of the users feel that it is important to have a broad library (and Disney has the competitive advantage to do it) however, possessing the best content to attract and retain customers is hard and expensive, which generates a strong competition. As such, to deliver a unique service, Disney will remove its movies and series from Netflix platform by the end of 2019 and remove Fox content from HBO by 2022. Moreover, the company is going to release 15 original series and 10 movies during the first year of its new platform (2020), which will imply a budget of \$1 Billion. Additionally, Disney+ includes Disney, Pixar, Star Wars, Marvel and National Geographic programming.

Figure 1: Importance of attributes for a video streaming service



Source: Nielsen Report total audience

In FY2019 Disney acquired full control of the Hulu platform, a service that does not offer the same content of Disney+. Instead, it focuses on streaming TV episodes and movies and has a close relationship with major US broadcasters, continuously ensuring high-profile libraries. With the acquisition of certain 21CF's businesses, Disney acquired the Indian streaming platform Hotstar, which currently offers over 100,000 hours of TV content and movies across 9 languages, with every major sport covered live. The firm goes further and beyond on the supply of content with

¹ Over-the-top

² <https://mashable.com/article/most-important-buying-factors-for-video-streaming-services/?europe=true>

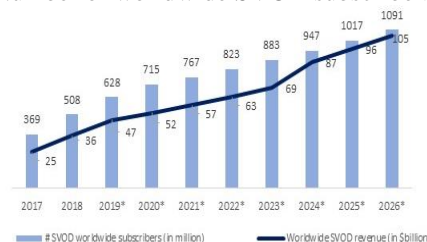
ESPN+, a stream live platform focused on the sports niche. One may think that these platforms would be competitors, but the reality is that users cannot fulfill their needs through a single platform and more than a third of the consumers are willing to subscribe to at least two services. Disney is undertaking this by offering a combined reduced price that includes Hulu, ESPN+, and Disney+.

The success of a video streaming platform is directly correlated with the investment in content, especially on original movies and series, that enable companies to differentiate. Through this report, the mentioned ROIOC, represents the return on investment in original content:

$$ROIOC = \frac{\text{Operating income}}{\text{Investment in original content}} \times 100$$

Currently, there are 74% of Households with access to a subscription video-on-demand service, an increase of 22% when compared to 2015 data. The future of this market looks promising, having an expected nominal CAGR of 8.6% for the number of subscribers and 12.14% for the global revenues, until 2024 (which is translated to 9.9% real growth rate).

Figure 2: Number of worldwide SVOD subscribers and revenue



Source: Statista

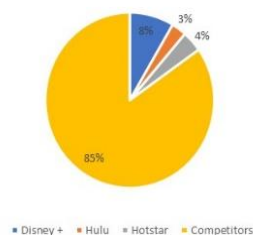
Scenario analysis

This work focuses on 3 different scenarios considering macroeconomic variables³, namely the economic growth, the competitive structure of the streaming industry and Disney's internal capabilities, i.e. the budget on investment in original content. To have an overview of the market, it is believed that some major players will contribute to an aggressive competition: Netflix, Amazon Prime, Apple TV+, HBO max, Disney +, Hulu and Hotstar.

³ T. Koller, M. Goedhart, and D. Wessels, Valuation: Measuring and Managing the Value of Companies, McKinsey & Company, John Wiley & Sons, 5th ed.

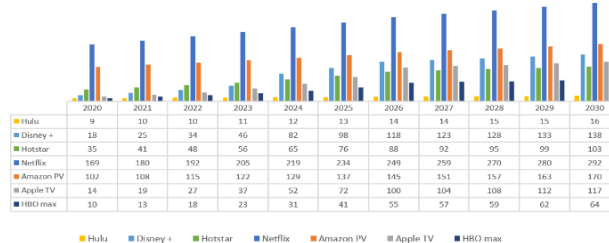
Scenario 1: In this scenario one assumes that the global GDP will grow at an average of 3.60% until 2026 (real growth rate of 1.36%) and that 1/3 of subscribers will be willing to pay for more than 2 services. The 6 companies under this research are continuously increasing the budget allocated to the creation of original contents which will allow them to differentiate and increase its penetration rate. Following this, it is estimated that the most mature services such as Netflix, Amazon prime video, Hulu and Hotstar, to have a CAGR of subscribers until 2026 of 7%, 6%, 8%, and 17% respectively. For the recent platforms, it is predictable a CAGR of 37% for Disney+, 39% for Apple TV+, 33% for HBO Max. Since this segment is highly competitive, the market share of subscribers for the most mature companies will decrease and Netflix will retain 23% by 2026 (versus 25% in 2019), Amazon 13% (versus 15%) and Hulu 4% (versus 5%). For the remaining services, the subscriber market share is estimated to increase, leading to a subscribers market share of 19% for Disney+, 8% for Hotstar, 5% for HBO Max and 9% for Apple TV+. The scenario with higher probability of occurrence (50%), and the one included in the main report, states that Disney will invest \$5.32 billion (73% of the total operating expenses) for its 3 streaming services in 2020. In 2026, the aforementioned case expects a ROI OC of 6% and an enterprise value, through the DCF method, of 3,959\$ million, resulting in a price per share of \$162, with a capital gain of 10.5% and a cash gain of 1.44% producing 12% of total return, translating into a buy recommendation.

Figure 3: Revenue Market Share 2026



Source: Nova SBE Equity Research

Figure 4: Scenario 1: Projected subscribers (in million)

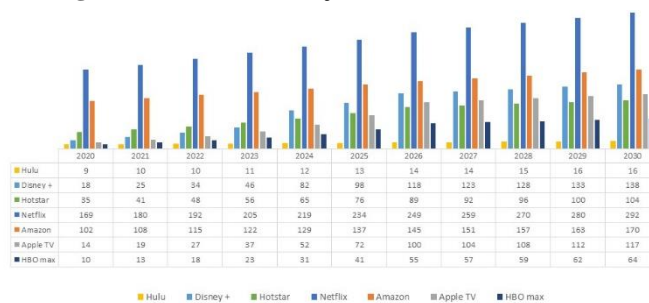


Source: Nova SBE Equity Research

Scenario 2: This scenario has 25% probability of occurrence and assumes that the global GDP will grow at a rate higher than 3.60% until 2026, and that more than 1/3 of subscribers will

be willing to pay for more than 2 platforms of streaming services. When compared to scenario 1, this case expects an increase of 1 basis point on Disney service subscribers and 50 b.p. on SVOD market, which translates to an increase in subscribers CAGR of 0.11%, 0.06%, 0.04%, and 0.02% in, respectively, Netflix, Amazon, Apple TV+, and HBO Max, until 2026. The market share of Disney's services subscribers and its original content budget will remain the same as in scenario 1, whereas in 2020 it is forecasted to be \$5.32 billion (73% of operating expenses). Nonetheless, the 2026 expected ROIOC in this scenario is 7% and the forecasted enterprise value, through DCF method, is \$15,990 million, with a RONIC equal to 10.325% and RR of 62%. This results in a price per share of \$168.91 with a capital gain of 15.00% and a cash gain of 1.44%, generating 16.44% of total return. All this makes it a buy recommendation.

Figure 5: Scenario 2: Projected Subscribers (in million)

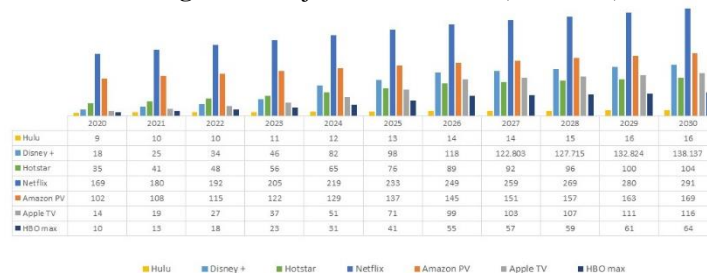


Source: Nova SBE Equity Research

Scenario 3: Again, with 25% of probability, this new scenario assumes that GDP will grow at a slower rate than 3.60% until 2026 and that less than 1/3 of subscribers will be willing to pay for more than 2 platforms of video streaming, leading to a decrease of 50 basis points in global subscribers. Under these conditions, it is expected that Hulu will have a subscribers CAGR of 6.93%, Disney+ 36.62% and Hotstar 16.50%. The CAGR of subscribers, until 2026, for the competitors Netflix, Amazon, Apple TV+ and HBO Max is estimated at 6.67%, 5.97%, 38.76%, and 32.70%, respectively. Assuming the budget will be higher than in the previous scenarios and that consumers will be less open to subscribe more than one service, Disney must invest more in

original content to differentiate itself from the competitors and maintain its market share. As such, the company will spend \$5.64 billion (78% of total operating expenses) in its 3 streaming services, with an estimated ROIOC of 5% by 2026 and an enterprise value of \$744 million, thus leading to a price per share of \$160, a capital gain of 9.24% and a cash gain of 1.44%. Ultimately, this is translated into 10.68% of total return, which is higher than 10%, and therefore considered a buy recommendation. The EV for this segment is the result of lower revenues from subscription fees, which imply lower cash flows. While the discounted continuing value for this segment is \$15,738 million (from 2030 onwards), the forecasted period presents a negative value of \$14,994 million. This business is at an initial stage and requires high operating, selling, depreciation and amortization costs (106% of revenues in 2023 that will be 97% of revenues by 2030) which is why it will present negative earnings in an early stage and the enterprise value for the forecasted period will be lower, with a RONIC of 8.267% and an RR of 74%, on new invested capital.

Figure 6: Projected subscribers (in million)



Source: Nova SBE Equity Research

Conclusion:

Since this is not a mature segment, its future definitely looks uncertain, which is why it is relevant to have a detailed overview of Disney's enterprise value and its implied price per share, considering multiple prospective cases. Taking into account each scenario probability, it is estimated an EV of \$6,163 million and a price per share of \$163.45, translated in a strong buy recommendation.

